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Fiscal Year 1987 Finance Committee Report

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Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

Bob Packwood, *Chairman*

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SUMMARY: IMPACT OF CONGRESSIONAL BUDGET ACT ON FINANCE COMMITTEE

The Congressional Budget Act of 1974 (titles I–IX of Public Law 93–344), as amended by the Balanced Budget and Emergency Deficit Control Act of 1985 (also known as the Gramm-Rudman-Hollings amendment), provides the mechanisms and procedures for Congress to establish its own annual Federal budget and to consider spending, revenue, and debt limit legislation in the context of that budget.

The Balanced Budget and Emergency Deficit Control Act of 1985 set forth maximum deficit amounts which Congress must meet in each of the fiscal years 1986 through 1991, leading to a balanced budget in the last year. The maximum deficit amounts are as follows: (1) $171.9 billion for fiscal year 1986, (2) $144 billion for fiscal year 1987, (3) $108 billion for fiscal year 1988, (4) $72 billion for fiscal year 1989, (5) $36 billion for fiscal year 1990, and (6) zero for fiscal year 1991. If Congress, however, fails to meet the maximum deficit amount in any fiscal year, the 1985 Act provides for an automatic deficit reduction procedure.

The Balanced Budget and Emergency Deficit Control Act also made significant changes to the 1974 Budget Act and many of those changes are included in the description of the budget process which follows.

The provisions of the Budget Act, as amended, have a number of effects on the consideration of legislation handled by the Committee on Finance. The major provisions affecting the Finance Committee are the following:

1. By February 25 of each year, the Finance Committee must submit a report to the Budget Committee estimating the effect that Finance Committee legislation will have on expenditures, revenues, and the debt limit during the next fiscal year, and presenting the committee's views and estimates with respect to such expenditures, revenues, and the debt limit. (Last year's report appears in Appendix A.)

2. Certain kinds of legislation may not be considered prior to certain specific dates. Revenue and debt limit legislation for the upcoming fiscal year, and legislation increasing expenditures in such areas as social security and welfare, cannot be considered by the Senate before Congress completes action on a budget resolution, which is to be accomplished by April 15. However, procedures are provided for waiving these restrictions, ordinarily by obtaining Senate approval of a resolution (which is referred to the Budget Committee for up to 10 days) permitting immediate Senate consideration.

3. If the Finance Committee reports legislation affecting welfare, medicaid, social services, and other non-trust-fund entitlement programs, it may not be considered in the Senate unless the Finance

Committee has filed an allocation report showing how it intends to subdivide spending for programs within its jurisdiction. If the legislation exceeds the amount budgeted in that allocation report, the legislation is to be referred to the Appropriations Committee for 15 days.

4. By April 15, Congress completes action on the concurrent budget resolution for the coming fiscal year setting appropriate revenue, spending, and deficit levels. The resolution can direct the Finance Committee to report legislation raising taxes or cutting back on spending programs within the committee's jurisdiction. Prior to the 1985 amendments, the Act also provided for the consideration of a second budget resolution in September. The spending and revenue levels in the first budget resolution were targets; these levels were binding as set forth in the second budget resolution. The requirement of a second budget resolution was eliminated by the 1985 amendments. Thus, the overall spending and revenue levels in the April 15 budget resolution become binding when the conference report thereon has been adopted by the Senate and the House.

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974, AS AMENDED

1. Overall View

OUTLINE OF CONGRESSIONAL BUDGET PROCESS

By April 1 of each year, the Budget Committees of the House and Senate shall report to their respective Houses a concurrent resolution which is, in effect, a congressional budget document setting forth appropriate levels for spending, revenues, and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment.

When agreed to by the House and the Senate (by April 15), the resolution represents congressional judgment of the appropriate fiscal situation for the coming year, which can direct the appropriate committees to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, committees directed to do so are to report the legislation called for by the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Action on this reconciliation bill is to be completed by June 15.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

Some of the rules applicable to Senate procedures under the Congressional Budget Act can be waived by a majority vote of the Senate. Others, as a result of the 1985 Act amendments, now require a three-fifths vote of all Senators. Appendix C lists all Budget Act points of order and the vote required to waive them. In addition, the act includes a special waiver procedure in connection with the provisions requiring that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before the adoption of the budget resolution, action which is to be completed by April 15. If a committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for a waiver of the rule. This resolution would be referred to the Budget Committee, which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be voted upon by the Senate, and, if it is approved, the Senate could proceed to consider the legislation.

2. Impact of the Budget Act on Finance Committee

LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each committee is required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year (and the following two fiscal years) which will result from legislation under the committee's jurisdiction. By statute this report is due no later than February 25.

Report after adoption of budget resolution.—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the House of Representatives, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution. Bills and amendments involving spending may not be considered until the committee with jurisdiction over that spending program has filed its allocation report.

Limitation on consideration of spending bills.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare or medicaid) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the Senate prior to the adoption of the concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the Senate to suspend this rule. In addition, entitlement legislation (other than trust fund legislation) reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Impact of concurrent budget resolutions on legislation.—The concurrent resolution, which is to be passed by April 15, not only sets appropriate spending levels but may direct the committees having jurisdiction over spending legislation to report reconciliation legislation to rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Finance, this may include a requirement that the committee report legislation to defer or reduce benefits under entitlement programs, including both trust fund programs (such as unemployment insurance or medicare) and non-trust-fund programs (such as welfare, social services or medicaid). Reconciliation legislation may not include changes in the Social Security programs of Old-Age, Survivors and Disability Insurance (OASDI).

After the adoption of the budget resolution for a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution to be exceeded or would cause the deficit for the fiscal year to exceed the maximum deficit amount. In the case of the Committee on Finance, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new or revised budget resolution could, however, be passed to authorize such additional spending, or the rule could be waived by a three-fifths vote of the Senate.)

The budget totals included in the resolution are mandatory, establishing firm guidelines within which the Congess considers legislation affecting revenues and spending. Thus, if unrealistic assumptions or objectives are used in setting the budget resolution totals, committees may subsequently find their ability to act on desired legislation impaired.

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, social services, or medicaid creates an entitlement to payments on the part of individuals or State or local governments even though these programs are funded through appropriations acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the committee's allocation of its spending authority under the most recent budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such an amendment is approved by the Senate, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues. It would also not apply to legislation amending or extending the general revenue sharing program to the extent that such legislation included an exemption from that requirement.

In the past, refundable tax credits were treated for purposes of the congressional budget process as revenue reductions. Under revised procedures adopted in 1978, the budget process now treats the refundable aspects of such credits as "outlays" thus bringing them within the scope of the above described provisions related to Appropriations Committee review of entitlement bills. In addition, the authority previously used for disbursing the refundable part of tax credits has been the permanent appropriation for tax refunds. This permanent appropriation was amended in 1978 so as to require annual appropriations for this purpose.

Report on spending legislation.—The Budget Act requires the committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent budget resolution. In addition, if this information is provided by the Congressional Budget Office (CBO) on a timely basis, the report must also include CBO projections showing the extent to which the legislation provides financial aid to States and localities and a projection for five fiscal years of the spending which will result from the legislation. This requirement has now also been extended to conference reports, if the information is provided by CBO on a timely basis.

LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

Annual report to the Budget Committee.—The February 25 annual report to the Budget Committee which is described above also must, in the case of the Finance Committee, present its views and estimates with regard to revenues and the debt limit.

No revenue legislation prior to adoption of the budget resolution.—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not in order for consideration by the Senate (or House) prior to the adoption of the resolution on the budget. This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the Senate.)

The exact wording of this provision of the Budget Act is not entirely clear. In 1978, the Senate Budget Committee adopted the position that this restriction required that there be no increase or decrease in revenues to become effective in the next fiscal year for which no budget resolution had been adopted. In other words, under this interpretation, there would always be one "closed year" for which no revenue change could be considered. Consequently, a point of order was raised during the consideration of the 1978 tax cut bill (H.R. 13511) against an amendment by Senator Roth on the grounds that it provided for a revenue change effective in fiscal year 1980. (The first budget resolution for fiscal year 1980 would not have been adopted until approximately May 15, 1979.) The position of the Finance Committee was that this restriction in the Budget Act only applied from the beginning of the calendar year, when the process of developing the fiscal 1980 budget resolution has begun. Once that resolution has been approved, revenue changes may be considered throughout the remainder of the calendar year which would be effective for the fiscal year to which the resolution applies and for any future fiscal year.

The point of order raised by the Budget Committee was sustained by the Chair, but the ruling of the Chair was overturned by the Senate on a vote of 38 to 48. This occurred on October 5, 1978.

Impact of budget resolution.—As with spending measures, the concurrent resolution adopted in mid-April sets mandatory levels for revenue and debt limit legislation, and may direct the Committee on Finance to report reconciliation legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which is to be acted upon by June 15. Once a budget resolution is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the budget resolution sets a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order. If the resolution includes unrealistic revenue goals, the committee will face difficulties in the consideration of any revenue legislation.

Required report on tax expenditures.—The Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the committee report accompanying legislation to provide new or increased tax expenditures include a projection by CBO (if timely received) as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years. This requirement also now applies to conference reports.

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CHARTS AND DESCRIPTIONS

Chart 1

Report to Budget Committee

Views and estimates of Finance Committee on:

1. Expenditures
2. Revenues
3. Tax expenditures
4. Public debt

Relating both to existing law and proposals to change existing law

Chart 1

Report to Budget Committee

Under the Congressional Budget Act of 1974, as amended by the Emergency Balanced Budget and Deficit Control Act of 1985, the Committee on the Budget is required by April 1 of each year to report to the Senate a concurrent resolution on the budget which is, in effect, a proposed congressional budget document setting forth appropriate levels of Federal expenditure and revenue, surplus or deficit, and related matters. To assist the Budget Committee in making the judgments necessary to develop such a budget, the Act also mandates that each committee send to the Budget Committee its views and estimates on those aspects of the budget which fall within its jurisdiction. This report is due, under the 1985 Act, by February 25 of each year.

In the case of the Committee on Finance, the report to the Budget Committee must cover the expenditure programs under Finance Committee jurisdiction which are listed on chart 3, Federal revenues, tax expenditures, and the public debt. With respect to each of these matters, the committee is required to provide its views and estimates as to the levels anticipated under existing law or under any changes to existing law which the committee expects. The period to be covered by the report to the Budget Committee is fiscal year 1987 (and for planning purposes, fiscal years 1988 and 1989). The report sent to the Budget Committee last year is reprinted in Appendix A.

Section 301(c) of the Budget Act, which deals with the February 25 report to the Budget Committee, is included in the excerpts from that Act which appear in Appendix B.

Chart 2.—ECONOMIC ASSUMPTIONS

[Calendar years; dollars in billions]

	1985	1986	1987	1988	1989	1990	1991
Gross national product (GNP):							
Current dollars	3,992	4,274	4,629	4,995	5,359	5,709	6,036
Constant (1982) dollars	3,574	3,695	3,842	3,996	4,151	4,301	4,454
Percent change in real GNP	2.5	4.0	4.0	4.0	3.7	3.6	3.5
Personal income	3,294	3,486	3,756	4,012	4,266	4,506	4,748
Wages and salaries	1,961	2,078	2,247	2,418	2,587	2,743	2,901
Corporate profits before tax	228	281	330	366	394	424	430
Percent change in CPI	3.3	3.7	4.1	3.5	3.2	2.5	2.0
Unemployment rate, total (percent)	6.9	6.7	6.5	6.2	6.0	5.7	5.5
Treasury bill rate (91-day) (percent)	7.5	7.3	6.5	5.6	4.8	4.3	4.0

Chart 2

Economic Assumptions

Prior to this year, a March 15 report to the Budget Committee was required by the Congressional Budget Act of 1974 giving the Finance Committee's views as to revenues, expenditures and other budgetary matters for the coming fiscal year both under existing law and under any anticipated changes. Under the accelerated budget process timetable set forth in the Emergency Balanced Budget and Deficit Control Act of 1985, this report is required to be made by February 25.

The level of these items, however, is affected not only by legislation but also by various economic factors concerning which there reasonably may be differences of opinion. These differences can reflect divergent viewpoints as to how the economy will operate and as to the type of legislation that may be enacted and its effect on the operations of the economy.

Different programs are particularly sensitive to different aspects of the economy. For example, expenditures under social security are sensitive to the Consumer Price Index (CPI) since that program includes an automatic cost-of-living increase provision. The unemployment insurance program does not incorporate such a provision but is, of course, particularly sensitive to the amount of unemployment.

Revenues, similarly, are strongly affected by the level of personal income and of corporate profits, and, in the case of payroll tax revenues, by wages and salaries. In addition, trends in interest rates and the rate of inflation affect the cost of interest on the public debt.

This chart presents a selection of the most significant economic indicators as taken from the President's budget for fiscal year 1987.

Chart 3

Major Expenditure Programs Under Finance Committee Jurisdiction

1. Social security cash benefits (see chart 4):
    - A. Old-age and survivors insurance (OASI)
    - B. Disability insurance (DI)
2. Unemployment compensation (UC) (see chart 5)
3. Welfare programs for families (see chart 6):
    - A. Aid to families with dependent children (AFDC)
    - B. Work incentive program (WIN)
    - C. Child support enforcement (CSE)
4. Social services (see chart 7)
5. Supplemental security income (SSI) for the aged, blind, and disabled (see chart 8)
6. Health programs (see charts 9–11):
    - A. Medicare
    - B. Medicaid
    - C. Maternal and child health (MCH)
7. Revenue sharing (see chart 12)
8. Interest on the public debt (see chart 12)

Chart 3

Major Expenditure Programs Under Finance Committee Jurisdiction

This chart lists the major programs involving an expenditure of Federal funds which come within the legislative jurisdiction of the Committee on Finance. Each of these programs is covered in more detail in the following charts. Interest on the public debt is included as an expenditure program since it does constitute a significant part of the Federal budget even though the level of expenditure is not subject to legislative control in the same sense as expenditures under the other programs listed.

Proprietary receipts from the public (often referred to as offsetting receipts) are deposited in receipt accounts of the general funds, special funds, or trust funds as a result of the Government's business-type or market-oriented activities, e.g., premiums charged beneficiaries for medical insurance protection provided under part B of Medicare. Such collections are not counted as budget receipts but are offset against total budget authority and outlays. The Administration's proposals to establish customs user fees and to increase Pension Benefit Guarantee Corporation premiums will produce offsetting receipts which the Budget Committee treats as outlay reductions. Premium increases under Part B of Medicare are also treated as offsetting receipts.

Under a revision in the Congressional budget procedures adopted in the 95th Congress, refundable tax credits are treated as revenue items insofar as they serve to reduce tax liability and as "outlay" items insofar as they exceed tax liability. Because such provisions are in fact considered by the committee and the Congress in the context of revenue legislation, however, they are discussed in this document at the same point as other revenue items. The refundable tax credit having significant budgetary impact in fiscal year 1987 is the earned income tax credit.

Chart 4.—SOCIAL SECURITY CASH BENEFIT (OASDI) TRUST FUNDS

[In billions of dollars]

	Fiscal year—					
	1986	1987	1988	1989	1990	1991
Present Law:[1]						
Income to trust funds	213.0	227.8	259.4	283.4	309.9	332.5
Outgo from trust funds	200.0	212.2	226.3	240.4	255.4	264.3
Difference	2.4	15.6	33.1	43.0	54.5	68.2
Repayment of interfund loan to HI[2]	−10.6					
End of year balance in trust funds	42.1	57.7	90.8	133.8	188.3	256.5
Trust fund ratio[3]	26	27	32	45	60	79

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[1] These are projections under current law based on the economic and demographic assumptions used in the President's fiscal year 1987 budget.

[2] The loan outstanding under the interfund borrowing authority made in 1982. The $10.6 billion transfer to HI made in fiscal year 1986 is the final repayment of that loan.

[3] Assets at the start of the year as a percentage of outgo during the year, including outstanding loans from HI and advances made to trust funds for expected tax receipts in January of each year.

Source: SSA, Office of the Actuary, February 5, 1986.

Chart 4

Social Security Cash Benefit (OASDI) Trust Funds Financial Status and Relationship to the Budget

The social security cash benefit programs, Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), provide income protection to people who work in employment covered by social security and earn a certain minimum number of "quarters of coverage." The OASI program pays benefits to eligible workers age 62 or older and their spouses and children, and to surviving spouses and children of deceased workers. The DI program pays benefits to disabled workers and to their spouses and children.

The Administration estimates that on average in fiscal year 1987, 23.2 million people age 62 and older, and 3.6 million of their dependents, will receive monthly social security retirement benefits. About 7.2 million people will receive benefits because they are survivors of deceased workers. Some 4.0 million people will receive benefits as disabled workers or as dependents of disabled workers. In total, approximately 38 million people will be receiving some type of monthly social security cash benefit.

The status of the trust funds.—The President's budget projections under current law for the next 5 years continue to reflect an improving financial outlook for the OASDI trust funds with the combined trust reserve ratio growing from 26 percent at the beginning of fiscal year 1986 to 79 percent at the beginning of fiscal year 1991. In addition, in January 1986 the OASDI Trust Funds repaid the remainder of the $12.4 billion loan made from the HI trust fund to the OASI trust fund in 1982.

However, a reserve ratio in the 20 to 30 percent range, as projected for the next 2 years, is not so large that renewed financing problems are impossible. As with other sets of projections made over the past few years, the President's current budget projections anticipate a strong and steadily growing economy. If the economy were to falter during this period, the reserve of Federal securities held by the OASDI trust funds could be significantly eroded.

The projections also assume that an automatic benefit increase will be triggered under current law in the first 4 years of the 5-year projection period, and that the trust fund reserve will be high enough to avoid triggering the "stabilizer" provision under which benefit increases would have to be based on the lower of the rise in wages or prices.

The following table displays the economic assumptions underlying the President's budget as they relate to the OASDI program.

ADMINISTRATION'S ECONOMIC ASSUMPTIONS RELATED TO SOCIAL SECURITY

[In percent]

	Calendar year—						
	1985	1986	1987	1988	1989	1990	1991
Percent change in CPI	3.5	3.5	4.2	3.7	3.3	2.8	2.1
Benefit increase[1]	[2] 3.5	[2] 3.1	3.7	4.3	3.6	3.3	[3] 0.0
Real wage differential	0.3	1.9	2.6	2.3	2.3	1.7	2.2
Civilian unemployment rate	7.2	6.8	6.6	6.4	6.2	5.9	5.7

[1] Benefit increase payable in January of the specified year.

[2] Actual.

[3] Assumes the rate of inflation will be less than 3%, that required to "trigger" a benefit increase.

The relationship of OASDI to the budget.—P.L. 99-177 places social security "off-budget" beginning in FY 1986. However, the receipts and expenditures of the social security trust funds are counted for the purpose of meeting budget deficit targets specified in the Balanced Budget and Emergency Deficit Control Act of 1985. If the deficit targets of that Act are not met, social security benefits would be exempt from expenditure reductions under the sequestration process, but social security administrative expenses would not be exempt.

Social Security Cash Benefit Programs (OASDI): Proposed Legislation

Deposit of social security payroll taxes for covered employees of State and local governments.—The President's budget for fiscal year 1987 includes a proposal that would increase social security (OASDHI) revenues. States currently are required to make deposits twice a month of social security contributions (technically they are not considered taxes) on their own behalf for sub-State entities and they are liable for all such payments under agreements with the Social Security Administration (SSA). Private employers are required to make tax payments under a schedule that generally relates the frequency of deposits to the amount of taxes withheld. Large employers may make deposits as frequently as once a week, while small employers may make them as infrequently as once every three months.

The Administration's proposal would remove the States from the intermediary role of collecting contributions from sub-State entities and put all State and local government employers under a direct depositing requirement with a schedule that conforms with the frequency required of private employers. In addition, the proposal would subject State and local governments to the same interest penalty for late deposits as is imposed on private employers. Under current law, the interest charge for late deposits from State and local governments is 6 percent. The proposal would be phased in over a 3-year period beginning October 1, 1986.

SOCIAL SECURITY

[In billions of dollars]

	Fiscal year—			
	1987	1988	1989	3-year total
Tax deposit acceleration	400	328	1.2	1.9

Chart 5.—UNEMPLOYMENT COMPENSATION

[In billions of dollars]

Unemployment trust fund	Fiscal year—	
	1986	1987
Status of State accounts:		
Income:		
State taxes	18.4	17.0
Interest	1.5	1.6
Federal loans	2.1	0.6
Total	22.0	19.2
Outgo:		
State benefits	14.5	14.8
Federal loans repaid	3.0	0.7
Total	17.5	15.5
Balance at end of year	21.6	24.4
Less outstanding Federal loans	4.5	3.3
Net balance	17.1	21.1
Status of extended benefit account:		
Income:		
Federal taxes	1.5	1.9
Transfer from Administration account	0.0	0.0
Total	1.5	1.9
Outgo:		
Extended benefits	(1)	(1)
Repayment of general fund advances for extended benefits	1.5	0.8
Total	1.6	0.8
Balance at end of year	(1)	1.2
Less outstanding general fund advances	0.8	.0
Net balance	0.8	1.2

Chart 5.—UNEMPLOYMENT COMPENSATION—Continued

[In billions of dollars]

Unemployment trust fund	Fiscal year— 1986	Fiscal year— 1987
Status of administration account:		
Income:		
Federal taxes and interest	2.6	3.0
Total	2.6	3.0
Outgo:		
State unemployment insurance service	1.6	1.7
State employment service	0.9	0.9
Federal administration	0.1	0.1
Transfer to extended benefits account	0.0	0.2
Total	2.7	2.9
Balance at end of year	1.0	1.2
Status of Federal unemployment account:		
Income:		
State repayments	3.9	1.8
General revenue advances	.0	.0
Total	3.9	1.8
Outgo:		
State loans	2.1	0.6
Repayment of general revenue advances	1.7	1.1
Total	3.8	1.7
Balance at end of year	1.8	1.9
Less outstanding general revenue advances	5.6	4.5
Total	−3.8	−2.6

Chart 5.—UNEMPLOYMENT COMPENSATION—Continued

[In billions of dollars]

Unemployment trust fund	Fiscal year—	
	1986	1987
General fund:		
Federal employee compensation and unemployment benefits and allowances accounts (2):		
Outlays	0.3	0.3

---

[1] Extended Benefits outlays were less than $50 million at $.01 and $.02 million in fiscal year 1986 and fiscal year 1987, respectively. Half of these amounts is in the State accounts and half is in the Extended Benefits Account.

[2] The programs in this category are: Unemployment Compensation for Federal Employees; Unemployment Compensation for Ex-servicemen; Postal Service Employees; Trade Adjustment Assistance; and Redwood compensation.

Note: Detail may not add to totals because of rounding.

Chart 5

Unemployment Compensation

The unemployment compensation system was enacted as a part of the Social Security Act of 1935 to provide partial wage replacement to covered workers during periods of temporary and involuntary unemployment. The program is a joint Federal-State system composed of programs administered by the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands.

The major provisions of the unemployment compensation program are determined by State laws. In general, State laws establish eligibility requirements, the number of weeks an individual may collect unemployment compensation, the amount of the weekly benefit, the circumstances under which benefits may be denied, the length of denial, and the State unemployment tax structure.

The unemployment compensation system is financed by State and Federal payroll taxes on employers. Under the Federal Unemployment Tax Act (FUTA), a payroll tax of 6.2 percent on the first $7,000 of wages is levied on employers. If the State's unemployment compensation program meets the requirements of Federal law, employers in that State receive a 5.4 percent credit against the 6.2 percent Federal unemployment tax. Thus the effective Federal tax rate in a State which has an approved program is 0.8 percent. The effective tax rate may be higher in States having outstanding unemployment insurance loans from the Federal Government. The tax rate and the net effective tax rate are scheduled to drop by 0.2 percentage points (to 6.0 and 0.6) when the outstanding general fund loans to the extended benefit account have been repaid. This rate reduction is projected to take place as of January 1, 1988.

The Federal tax is used to pay both State and Federal administrative costs associated with the unemployment compensation and State employment service programs, to pay most of the cost of operating State employment service programs, to fund 50 percent of the extended benefits paid to unemployed workers under the Federal-State Extended Unemployment Compensation Act of 1970, and to maintain a loan fund from which an individual State may borrow when it lacks funds to pay State unemployment compensation benefits.

States also levy unemployment compensation taxes on covered, private employers in the State. State taxes finance regular State benefits and one-half the cost of extended benefits. State unemployment funds are deposited with the Federal Government in the unemployment trust fund, which is a part of the unified Federal budget. States then pay benefits from this fund.

Most unemployment benefits are paid through the Federal Unemployment Trust Fund which consists of a number of accounts and which draws its funding partly through State payroll taxes, partly through the Federal Unemployment Tax, and partly from general revenues.

Regular State unemployment benefits are paid by the States from individual State accounts in the trust fund. These State accounts are primarily funded by State payroll taxes on employers. However, if a State account is unable to meet its obligations, the State account may be supplemented by loans from a Federal loan account in the trust fund.

In most States, regular State unemployment benefits are payable for a maximum of 26 weeks. In times of high unemployment, the Federal-State extended benefit program goes into effect providing up to 13 additional weeks of benefits.

The extended benefits program triggers on in a State when the insured unemployment rate (IUR) in that State reaches at least 5 percent and is at least 20 percent higher than the rate prevailing on average during the comparable period in the previous 2 years. However, a State may elect an optional trigger which permits the payment of extended benefits when the State IUR is at least 6 percent, even if that rate is not 20 percent higher than the rate prevailing in the 2 prior years.

Federal general revenue funds are advanced as needed to cover shortages in the account which pays the Federal share of extended benefits and in the account from which States borrow to meet shortages in State accounts. In addition, general revenues are used to meet the cost of certain benefits provided under Federal law. These include unemployment benefits for Federal employees and ex-servicemen, and benefits under special programs related to disaster relief and the Redwoods Park. Except for Federal civilian employees and ex-service members, these separately funded general revenue programs are not included in the trust fund totals. General funds have also been used to pay trade adjustment benefits. However, this program was not extended when it expired in 1985.

A special program also exists for workers in the railroad industry. This is funded by employer contributions which are paid into a separate trust fund account administered by the Railroad Retirement Board.

The target budget deficits under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) reflect the impact of unemployment taxes and spending (including both Federal and State accounts). If, however, the target deficits are not met, the automatic "across-the-board" spending reductions are applied to unemployment benefits according to special rules. Regular State benefits and benefits for former Federal employees and ex-servicemen are exempt from any reduction. Extended benefits, as such, are not reduced, but the Federal share of the funding for these benefits is subject to reduction. States have the option of reducing or not reducing the actual benefit payments to reflect the reduction in Federal funding. Other federally funded benefits, such as benefits for Redwood workers and railroad unemployment benefits, are subject to reduction.

Proposed Legislation

The Administration proposes that railroad unemployment be covered under the Federal-State unemployment insurance system beginning with a transitional program in fiscal year 1987. During the transition period, States would be reimbursed by the railroads for the costs of benefits for unemployed railroad workers. After the transition, Railroads would contribute to State unemployment insurance programs on a regular basis to cover unemployed railroad workers.

UC PROPOSAL

[In millions of dollars]

	Fiscal year—			
	1987	1988	1989	3-year total
Increase tax	111	134	124	369
Benefit increase	+1	+7	+12	+20
Total	110	127	112	349

Chart 6.—WELFARE PROGRAMS FOR FAMILIES

[In billions of dollars]

	Fiscal year—	
	1986	1987
Present law:		
Aid to families with dependent children:		
Welfare payments	7.939	7.248
Administration	1.040	1.096
Work incentive program (WIN)	0.210	....
Child support:		
Non-AFDC collections	[1] 1.823	1.978
AFDC collections	1.199	1.293
Federal share of AFDC collections	.386	.417
Total AFDC and non-AFDC administrative costs	.946	1.049
Federal share	.641	.748
Title IV–B (child welfare services and training)	[2] .202	.204
Title IV–E (foster care, adoption assistance)	[3] .643	.604
	[4] .548	....

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[1] Reflects $9.4 million sequestered in FY 1986 under P.L. 99–177.

[2] Reflects $8.9 million sequestered in FY 1986 under procedures of P.L. 99–177.

[3] Reflects $6.1 million sequestered under special rules in FY 1986 under procedures of P.L. 99–177 for foster care; and $557,000 sequestered under special rules for adoption assistance. Also reflects FY 1986 supplemental requests for later transmittal for allowable prior year claims & projected 1986 program costs.

[4] FY 1986 adjusted program level for foster care and adoption assistance.

Chart 6

Welfare Programs for Families

A. AID TO FAMILIES WITH DEPENDENT CHILDREN

The program of Aid to Families with Dependent Children (AFDC) provides Federal matching for State programs of cash assistance to needy families with children in which at least one parent is deceased, disabled, or absent from the home. States, at their option, may also provide benefits for families in which dependency arises from a parent's unemployment. Twenty-four States, Guam and the District of Columbia are currently providing benefits to families with unemployed parents. The amount of Federal matching for AFDC benefits varies from State to State under formulas providing higher percentages in States with lower per capita incomes. The national average contribution by the Federal Government is 54 percent. States establish their own income eligibility and benefit levels.

According to the Administration, under present law the average number of families and recipients receiving monthly payments is as follows:

[In millions]

	Fiscal year—		
	1985	1986 est.	1987 est.
Families	3.7	3.7	3.7
Individuals	10.8	10.8	10.8

Administration estimates for Federal program costs under present law are as follows:

[In millions of dollars]

	Fiscal year—		
	1985	1986 est.	1987 est.
AFDC benefits [1]	7,529	7,939	7,248
Emergency assistance	76	81	82
Adult assistance in jurisdictions	13	13	14

	Fiscal year—		
	1985	1986 est.	1987 est.
State and local administration and training	921	1,005	1,061
Federal administration	38	37	34
Repatriation of U.S. nationals	1	1	1
Total	8,578	9,076	8,440

[1] After reductions for child support enforcement collections of $351 million in 1985, $386 million in 1986, and $417 million in 1987. Also 1987 includes reductions of $777 million for erroneous payments in prior years.

The target budget deficits under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) reflect the impact of spending for the Aid to Families with Dependent Children program. If, however, the target deficits are not met, the AFDC program (including benefits and State administrative costs) is exempt from reduction under the sequestration procedures in that Act. The administrative costs of the Federal Office of Family Assistance, which oversees this program, are subject to reduction.

B. WORK INCENTIVE PROGRAM

The Work Incentive (WIN) program is charged with administering the work registration requirement for AFDC recipients, and providing employment and training services for those who are required to register or who volunteer for WIN services. The program also provides support services, including child care, for those who need them in order to work or take training. The program is administered jointly at the Federal level by the Department of Health and Human Services and the Department of Labor, and at the State level by the welfare (or social service) agency and the employment service. The Federal matching share is 90 percent.

The Omnibus Budget Reconciliation Act of 1981 included a provision authorizing States to operate a 3-year demonstration program as an alternative to the current WIN program. The demonstration is aimed at testing single-agency administration, and the demonstration must be operated under the direction of the welfare agency. The legislation includes broad waiver authority to allow States to experiment with alternative methods of providing employment and training services. The period for applying for HHS approval of demonstration programs was extended to June 30, 1984 by the Tax Equity and Fiscal Responsibility Act of 1982. Public Law 98-396 (an appropriation act) further extended the WIN demonstrations through June 30, 1987.

Funding for WIN was $365 million in fiscal year 1981, $281 million in fiscal year 1982, $271 million in fiscal years 1983 and 1984, $267 million in fiscal year 1985, $220 million was appropriated for fiscal year 1986 and this appropriation was reduced by $9.5 million under the P.L. 99-177 sequestration.

C. CHILD SUPPORT ENFORCEMENT

The purpose of the Child Support Enforcement (CSE) program is to enforce support obligations owed by absent parents to their children, locate absent parents, establish paternity, and obtain child support. The program serves both AFDC and non-AFDC families. As a condition of eligibility for AFDC, each applicant or recipient must assign the State any rights to support which she may have in her own behalf or in behalf of children in the family, and must cooperate with the State in establishing paternity and in obtaining support payments. States are also required to provide child support services to families who are not eligible for AFDC.

The Federal Government pays 70 percent of State and local administrative costs for services to both AFDC and non-AFDC families on an open-end entitlement basis. In addition, 90 percent Federal matching is available on an open-end entitlement basis to States that elect to establish an automatic data processing and information retrieval system. The 70 percent matching rate is scheduled to decline to 68 percent in 1988 and to 66 percent in 1990.

Collections made on behalf of AFDC families are used to offset the cost to the Federal and State governments of welfare payments made to the family. However, the first $50 per month of such collections is passed through to the family. The amounts retained by the government are distributed between the Federal and State governments according to the proportional matching share which each has under the State's AFDC program.

Finally, as an incentive to encourage State and local governments to participate in the program, the law provides for a basic payment equal to a minimum of 6 percent of collections made on behalf of AFDC families plus 6 percent of collections made on behalf of non-AFDC families. The amount of each State's incentive payment could reach a high of 10 percent of AFDC collections plus 10 percent of non-AFDC collections, depending on the cost-effectiveness of the State's program. (The incentive payments for non-welfare collections may not exceed 100 percent of the incentive payments for welfare collections. This percentage increases to 105 percent in 1988, 110 percent in 1989, and 115 percent for years thereafter.) These incentive payments are financed from the Federal share of collections.

According to Administration data, child support collections and expenditures are as follows:

[In millions of dollars]

	Fiscal year—		
	1985	1986 est.	1987 est.
Total collections	2,674	3,022	3,271
AFDC collections	1,089	1,199	1,293
(Federal share)	351	386	417
Non-AFDC collections	1,585	1,823	1,978
Total administrative costs	826	946	1,049
Federal share	583	641	748

[1] The Federal share of collections is included in the AFDC appropriation as an offset to AFDC benefits.

The program made collections on behalf of 647,000 AFDC families and 547,000 non-AFDC families in fiscal year 1984.

The Child Support Enforcement Amendments of 1984 requires States to adopt numerous procedures to collect overdue child support payments, including mandatory wage withholding, liens against property, and withholding of State income tax refunds and to permit establishment of paternity until a child's 18th birthday. The 1984 amendments also alter the formula for Federal incentive payments to States for child support collections and extends those incentives to collections made on behalf of non-AFDC children. The amendments gradually reduce the Federal matching share for State and local administrative costs from 70 percent to 68 percent in 1988 and to 66 percent in 1990 and years thereafter. This act also modified the audit and penalty provisions under which the Federal agency monitors State effectiveness.

The 1984 law requires States to continue to provide services to former AFDC families; authorizes the Secretary of the Department of Health and Human Services to make project grants to States for developing new methods of support establishment and collection in interstate cases; extends the Federal income tax return intercept program to non-AFDC families; requires each State to establish guidelines for child support awards within the State; extends Medicaid eligibility for four months to families that lose eligibility for AFDC as a result of child support collections; and urges States to focus on the issues of child support, child custody, visitation rights, and other related domestic issues.

All Federal funding for the child support program is subject to reduction under the sequestration procedures of the Balanced Budget and Deficit Control Act of 1985 (P.L. 99–177). However, any required reduction in payments to the States are achieved by a lowering of the matching rate for administrative costs and not by modifying the incentive payments. In the case of the fiscal year 1986 sequestration, the CBO/OMB/GAO reports determined that the necessary 4.3 percent reduction in this account could be achieved by a reduction of approximately 4.8 percent in the Federal matching rate (from 70 percent to 66.65 percent). These reports were based on the premise that States would spend additional State funds to the extent necessary to keep total expenditures from declining.

D. CHILD WELFARE, FOSTER CARE, AND ADOPTION ASSISTANCE

The child welfare services program, authorized under title IV–B of the Social Security Act, is a 75 percent Federal matching grant program for States for provision of child welfare services to children and their families without regard to the family's income. The majority of the IV–B funds are spent for foster care. The State allocations are based on the State's per capita income and the size of its population under age 21 compared to all the States. The fiscal year 1985 appropriation for child welfare services was $200 million; for child welfare training $3.8 million; and for research and demonstration, $11.8 million. The fiscal year 1986 appropriations for services was $207 million; for training, $3.8 million; and for research and demonstration, $11.8 million.

The foster care program, authorized under title IV-E of the Social Security Act, provides matching funds on an entitlement basis to States for maintenance payments for AFDC-eligible children in foster care. The Federal matching rate for a given State is that State's Medicaid matching rate, which averages about 54 percent nationally. The fiscal year 1985 appropriation for foster care was $485.4 million. The fiscal year 1986 appropriation was $507.6 million.

The adoption assistance program, also authorized under title IV-E, provides Federal matching funds to States, at the Medicaid matching rate, for payments to parents who adopt an AFDC- or SSI-eligible child with "special needs." Special needs are defined as a condition, such as ethnic background, age, membership in a sibling group, or mental or physical handicap, which prevents the placement of the child without assistance payments. The amount of assistance provided to parents varies, depending on the economic circumstances of the family and the child's needs. The fiscal year 1985 appropriation for this program was $32.3 million; the fiscal year 1986 appropriation was $41.95 million.

P.L. 99-177 makes subject to expenditure reduction to meet the law's deficit targets increases in foster care maintenance payment rates or adoption assistance payments rates taking effect during the current fiscal year, along with Federal administrative expenses for the programs.

PROPOSED LEGISLATION

A. Aid to Families with Dependent Children (AFDC)

The President's budget includes a number of proposals to reduce the cost of the AFDC program. As shown in the table below, the Administration estimates that savings would total $188 million in fiscal year 1987. Three of the six proposals are very similar to, or the same as, those proposed in 1985. The other proposals would reduce Federal matching to States with high per recipient administrative costs, lower Federal matching for automated systems, and transfer assistance to refugees from the AFDC program to the refugee assistance program.

AFDC PROPOSALS

[In millions of dollars]

	Fiscal year—			3-year total
	1987	1988	1989	
Restructure work program/job search requirements	−52	−44	−42	−138
End caretaker benefits when youngest child is 16; limit essential person definition	−101	−103	−106	−310
End assistance for minor parents not living with parents	−20	−21	−21	−62

AFDC PROPOSALS—Continued

[In millions of dollars]

	Fiscal year—			3-year total
	1987	1988	1989	
Reduce Federal administrative matching to States with high per recipient administrative costs. Lower Federal matching for automated systems development	−15	−15	−15	−45
Total AFDC savings	−188	−183	−184	−555

Restructure work program/job search requirements.—The AFDC statute requires that all applicants and recipients of assistance who are not specifically exempt must register for work or training under the work incentive (WIN) program. The WIN program operates in all States. The statute provides for dual administration by the welfare agency and the employment service.

The Omnibus Budget Reconciliation Act of 1981 included a provision authorizing States to operate 3-year demonstration programs as alternatives to the current WIN program. The demonstration is aimed at testing single-agency administration and must be operated under the direction of the welfare agency. The legislation includes broad waiver authority. These demonstrations have since been extended through June 30, 1987.

The 1981 Reconciliation Act also authorized States to operate community work experience (CWEP) programs which serve a useful public purpose, and to require AFDC recipients to participate in these programs as a condition of eligibility. In addition, the 1981 Reconciliation Act included a provision under which States are permitted to use any savings from reduced AFDC grant levels to make jobs available on a voluntary basis. Under this approach (work supplementation), recipients may be given a choice between taking a job or depending upon a lower AFDC grant. States may use the savings from the reduced AFDC grant levels to provide or underwrite job opportunities for AFDC eligibles. Another work-related provision was enacted in the Tax Equity and Fiscal Responsibility Act of 1982, which authorized States to require applicants and recipients to participate in job search programs operated by the welfare agency.

The Administration is proposing that States be required, in three years, to have all employable adult AFDC applicants participate in job search and all employable recipients register and participate in job search and other work activities. States would have flexibility to structure their requirements for both job search and work activities. Job search could include activities such as participation in job clubs, telephone contacts with employers, or job referral activities. Work activities could include participation in CWEP, work supplementation, or on-the-job training programs. The 50 percent open-ended matching of administrative costs would be expanded to include costs associated with these employment-related activities.

End benefits to employable parents when youngest child is 16; limit essential person definiton.—Current law continues the eligibility of a parent/caretaker so long as the youngest child is eligible for benefits, i.e., until the child reaches 18, or, at the option of the State, age 19 if the child is in school and is expected to complete his course of study before his 19th birthday. Present law also allows States to include in the AFDC grant computation the needs and income of persons who are not themselves eligible for assistance but are in the household. States now have complete flexibility to decide who will be included in the grant as an "essential person."

Under the Administration's proposal, when the youngest child reaches 16, an employable caretaker relative would no longer be considered part of the assistance unit. The caretaker relative would be considered employable if he was required to register and particpate in the State's work-related programs for AFDC recipients. If the excluded caretake relative is the parent of the child, his income must be considered as available to the child after application of certain disregards. This proposal was agreed to by the committee in 1982, but was deleted in conference with the House. A similar provision relating to the social security (OASDI) program was adopted by Congress in 1981. The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) ends benefits for the mother or father caring for a child or children receiving child's insurance benefits, when the youngest child reaches age 16.

The Administration's proposal also includes a defintion of "essential persons" that can be included in the grant. Only those furnishing personal services needed because of disability or employment could be included.

End assistance for minor parents not living with parents.—Under present law, a minor parent who has a child, and who leaves home, may establish her own household and claim AFDC as a separate family unit. The income of the parents of the minor parent is not automatically counted as available to the minor parent, because they are not sharing the household.

The Administration is proposing that, in the case of a minor parent who is not and has never been married, AFDC may be provided only if the minor parent resides with her parent or legal guardian, unless the State agency determines that (1) the minor parent has no parent or legal guardian who is living and whose whereabouts are known, (2) the health and safety of the minor parent or the dependent child would be seriously jeopardized if she lived in the same residence with the parent or legal guardian, or (3) the minor parent has lived apart from the parent or legal guardian for a period of at least one year prior to the birth of the child, or before claiming aid, whichever is later. In addition, whenever a minor parent is eligible under this provision, the State agency would be allowed to make the assistance payments through a protective payee.

The committee approved a similar provision in 1982, but it was dropped in conference with the House. The committee approved the provision a second time as part of S. 2062, the Omnibus Reconciliation Act of 1983. In 1984, the committee approved the provision again, but it was dropped in conference with the House (H.R. 4170, the Deficit Reduction Act of 1984; P.L. 98-369).

Reduce Federal administrative matching payments to States with high per recipient administrative costs.—Under current law, the Federal Government, on an open-ended entitlement basis, reimburses each State for 50 percent of its administration and training costs related to the operation of the AFDC program.

The Administration is proposing to reduce Federal matching to States whose per recipient administrative costs exceed 175 percent of the national median. The reduction in the Federal matching rate, from 50 percent to 25 percent, would apply only to those administrative costs that exceed the 175 percent threshold. According to Administration officials, administration costs related to employment programs would not be subject to this limitation.

Lower Federal matching for automated systems development.—Under current law, a Federal matching rate of 90 percent is paid for the development and installation of mechanized claims processing and information retrieval systems.

Under the Administration's proposal, the Federal matching rate for developing automated information systems would be reduced from 90 percent to 75 percent. The 75 percent matching rate would be in effect for three years. After FY 1989, Federal matching for automated systems would be reduced to 50 percent; the regular rate for AFDC administrative costs.

Consolidate refugee cash and medical assistance.—The Refugee Act of 1980 authorizes 100 percent federally funded cash and medical assistance for needy refugees during their first 36 months in the United States. The Federal refugee assistance program reimburses States 100 percent for the non-Federal share of AFDC payments to refugees. The program also provides "refugee cash and medical assistance" to needy refugees and entrants who are categorically ineligible for AFDC or SSI.

Under the Administration's proposal refugees would not be eligible for AFDC or Medicaid benefits during their first 18 months in the country. Instead, cash and medical assistance would be provided solely by the Refugee and Entrant Assistance program. The refugee assistance legislation has not been considered by the Finance Committee in the past since it simply involved Federal reimbursement of costs associated with refugees. This proposal is not in the jurisdiction of the Finance Committee.

B. Work Incentive (WIN) Program

WIN PROPOSAL

[In millions of dollars]

	Fiscal year—			3-year total
	1987	1988	1989	
Termination of WIN	−191	−222	−235	−648

The appropriation for the WIN program was $365 million in fiscal year 1981, $281 million in fiscal year 1982, $271 million in fiscal years 1983 and 1984, $267 million in fiscal year 1985 and $220 million for fiscal year 1986. The Administration requested that no funds be appropriated for WIN in fiscal years 1983, 1984, 1985 and 1986 and is repeating the zero appropriation request for fiscal year 1987. In addition, the Administration is proposing a $45.9 million rescission for the last quarter of fiscal year 1986, thus eliminating the program by September 30, 1986.

The Administration suggests that the services authorized under the WIN program be provided by other programs, including the other AFDC work-related programs, the social services block grant, and the Job Training Partnership Act.

Although the regular WIN program and the WIN demonstration program would be repealed under the Administration's budget, the budget proposes to allow 50 percent Federal matching funds to be used by the States to operate certain work program activities. These funds would be available on an open-ended entitlement basis (in addition to the funds provided for administrative costs generally).

C. Child Support Enforcement

	Fiscal year—			3-year total
	1987	1988	1989	
Accelerate reduction in Federal matching for State/local administrative expenses	−39	−21	−22	−82
Reduce Federal matching for automated systems development	−2	−6	−5	−13
Total	−41	−27	−27	−95

Accelerate reduction in Federal matching for State/local administration expenses.—Under current law, Federal matching for State and local administrative expenses of child support programs is scheduled to be reduced from 70 to 66 percent by 1990. However, the sequestration report of the Comptroller General for fiscal year 1986, required by P.L. 99-177, provides that the Federal matching rate for 1986 would be reduced to 66.65 percent.

The Administration is requesting legislation to make a further reduction to 66 percent in 1987 rather than in 1990, as currently scheduled.

Reduce Federal matching for automated systems development.—Under current law, a Federal matching rate of 90 percent is paid for the development and installation of mechanized claims processing and information retrieval systems. However, the Comptroller General's sequestration report for fiscal year 1986 provided that the Federal matching rate for 1986 would be reduced to 85.69 percent.

The Administration is proposing that the 1986 rate of 85.69 percent be continued through 1987, reduced to 75 percent in 1988 and

1989. In 1990 and thereafter, automated systems development would be matched at the regular rate for State and local administrative expenses of 66 percent.

D. Child Welfare, Foster Care, and Adoption Assistance

FOSTER CARE

[In millions of dollars]

	Fiscal year—			
	1987	1988	1989	3-year total
Proposed legislation	38.7	61.4	83.7	183.3

The Administration's fiscal year 1987 budget request for child welfare services and training is $203.8 million. This amount, and the breakdown between services ($200 million) and training ($3.8 million) is identical to the fiscal year 1985 appropriations. The request for services is $7 million below the fiscal year 1986 appropriation of $207 million; and the request for training is the same as the fiscal year 1986 appropriation of $3.8 million. However, the Administration has adjusted fiscal year 1986 program levels based on sequestration under P.L. 99-177. The request for child welfare services is slightly above the adjusted fiscal year 1986 program level for this activity ($198 million) and the amount requested for child welfare training is slightly more than the adjusted fiscal year 1986 program level for this activity ($3.7 million).

The fiscal year 1987 budget request for child welfare research and demonstration projects is $6 million, a reduction of $5.83 million from each of the fiscal year 1985 and fiscal year 1986 appropriations ($11.83 million each year). The Administration is requesting a total of $9.8 million for research and demonstration related to child welfare in fiscal year 1987, under a combination of programs, including the child welfare research and demonstrations, the adoption opportunities program, and social services research under section 1110 of the Social Security Act (title XI). The fiscal year 1986 appropriation for child welfare research and development was $11.83 million and for adoption opportunities was $5 million. The fiscal year 1986 funding for these programs, however, has been adjusted by the Administration. The child welfare research and demonstration program has been reduced by $508,000 based on sequestration for fiscal year 1986 and the adoption opportunities program has been reduced by $86,000 based on sequestration. In addition, the Administration is requesting a $2.77 million rescission for child welfare research and demonstration for fiscal year 1986 and a $3.4 million rescission for adoption opportunities for fiscal year 1986. Thus, the estimated fiscal year 1986 program funding for child welfare research and demonstration is $8.6 million and for adoption opportunities is $1.5 million. No separate funding has been provided for the social services research since 1982, according to the Administration.

The fiscal year 1987 budget request for foster care and adoption assistance is $604.2 million. This sum includes $544.3 million for foster care and $59.9 million for adoption assistance. The fiscal year 1986 appropriation for foster care was $507.6 million. However, the Administration indicates the foster care proposal for fiscal year 1987 represents an increase of $42 million over the adjusted program level for fiscal year 1986 of $501.6 million, which reflects $6.1 million sequestered under P.L. 99-177 as well as fiscal year 1986 supplementals to be submitted later for program costs and prior year claims. The fiscal year 1986 appropriation for adoption assistance is $41.95 million. However, the Administration indicates the adoption assistance proposal for fiscal year 1987 is an increase of $13.9 million over the estimated program level for fiscal year 1986 of $46 million, which reflects $557,000 sequestered under P.L. 99-177 as well as fiscal year 1986 supplementals to be submitted later for program costs and current and prior year claims.

The Administration notes that the fiscal year 1987 budget continues support for legislation introduced in the fiscal year 1986 budget and that savings included in the fiscal year 1987 budget based on this legislation total $39 million. This legislation contains five major changes in the title IV-E foster care and adoption assistance programs: (1) providing a bonus to States for reducing the number of children in foster care more than 24 months; (2) reducing the level of child welfare services (title IV-B) appropriations necessary to trigger a mandatory ceiling on foster care expenditures, with a new formula for computing the ceiling for years after 1986, and adjusting the formula for allocating the foster care ceiling among the States; (3) allowing the Medicaid eligibility for children with special needs who are placed for adoption even though no adoption assistance payments are made; (4) limiting the time States would have to claim reimbursements under title IV-E to one year after expenditure; and (5) making permanent the present temporary provisions relating to IV-E foster care payments for children placed voluntarily in foster care.

Chart 7.—SOCIAL SERVICES

[In billions of dollars]

	Fiscal year—	
	1986	1987
Present law:		
Title XX block grant	[1] 2.584	2.700
Proposed legislation		2.700

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[1] Reflects sequestration of $116.1 million under the Balanced Budget and Emergency Deficit Control Act of 1985.

Chart 7

Social Services

In addition to cash benefit programs and medical assistance, the Social Security Act includes provisions in title XX which make Federal funding available for social services. In previous years, title XX legislation authorized matching funds for State social services programs on an entitlement basis. The Federal matching rate was generally 75 percent. In the Omnibus Budget Reconciliation Act of 1981, a new social services block grant program was created to replace the prior Federal-State matching program. A number of requirements on the States, including the requirement of a 25 percent non-Federal match, have been removed, and funding levels have been reduced. The program remains an appropriated entitlement, with each State eligible to receive its share of a national total of $2.4 billion in fiscal year 1982, $2.675 in fiscal year 1983 (with $225 million of this amount available for use in either 1983 or 1984), and $2.7 billion in fiscal year 1984 and years thereafter.

As under the previous statute, allocations are made on the basis of State population. States may determine how their funds are to be used and who may be served. There are no Federal family income requirements, and no fee requirements. Income standards and fees may be imposed at State discretion.

Proposed legislation

The FY 1987 budget request for the title XX social services block grant program is $2.7 billion, the permanent entitlement level. (The $2.7 billion entitlement for FY 1986 was reduced to $2.58 billion under the P.L. 99-177 sequestration procedures.)

The Administration has no changes proposed for this program in its FY 1987 budget.

Chart 8.—SUPPLEMENTAL SECURITY INCOME

[In billions of dollars]

	Fiscal year—	
	1986	1987
Present law:		
Total expenditures	10.193	10.569

Chart 8

Supplemental Security Income

Since January 1974, the Social Security Administration has been responsible for administering a basic income support program for needy aged, blind, and disabled persons called Supplemental Security Income (SSI). This program is funded entirely from general funds. The law establishing the SSI program permits the temporary use of the social security trust funds to meet the administrative costs of the program but provides specific safeguards to assure that those costs are promptly reimbursed to the trust funds by an appropriation from general revenues.

Under present law, the average number of recipients receiving federally administered SSI payments is estimated by the Administration to be as follows:

[In thousands]

	Fiscal year—		
	1985	1986 est.	1987 est.
Aged	1,336	1,304	1,264
Blind and disabled	2,370	2,509	2,648
Total Federal	3,706	3,813	3,912
State supplementation only recipients	329	340	352
Total SSI recipients	4,035	4,153	4,264

The maximum Federal monthly payment in calendar year 1986 is $336 for an individual, and $504 for a couple. Annual adjustments are made in January to reflect increases in the cost of living.

The Administration estimates Federal program outlays as follows:

[In millions of dollars]

	Fiscal year—		
	1985	1986	1987
Federal Benefits:			
Current law	8,539	9,101	9,589
Beneficiary services	2	7	8

[In millions of dollars]

	Fiscal year—		
	1985	1986	1987
Federal fiscal liability	2	73	0
Administrative costs	939	1,011	972
Disability demonstration projects			0
Total	9,485	10,193	10,569

Benefits payable under the Supplemental Security Income program are exempt from any reduction under any sequestration procedure which may be required pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985. The administrative costs of the program are, however, subject to the general sequestration rules. (The FY 1986 reduction in SSI administrative costs is about $33 million.)

Proposed Legislation

The Administration's fiscal year 1987 budget includes $34 million of savings from legislative proposals. The Administration has indicated that the changes deal with the elimination of certain duplicative Federal payments.

SUPPLEMENTAL SECURITY INCOME

[In millions of dollars]

	Fiscal year—			
	1987	1988	1989	3-year total
Proposed legislation	34.3	34.3	34.3	102.9

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Chart 9.—MEDICARE TRUST FUND ESTIMATES [1]

[Dollars in billions]

	Fiscal year—					
	1986	1987	1988	1989	1990	1991
Hospital Insurance:						
Income	56.7	62.7	68.5	73.5	78.4	82.8
Outgo	49.2	49.9	53.8	58.8	64.0	69.5
Net increase	7.5	12.8	14.7	14.8	14.4	13.3
Interfund borrowing transfers [2]	10.6					
Funds at end of year	38.7	51.4	66.1	80.9	95.2	108.6
Ratio [3]	77.4%	95.6%	112.5%	126.3%	137.1%	
Supplementary Medical Insurance:						
Income	25.0	26.9	30.2	35.5	40.2	44.9
Outgo	25.2	27.6	31.2	35.1	39.2	44.0
Net increase	–.3	–.7	–1.0	.4	.9	.9
Funds at end of year	10.4	9.6	8.6	9.0	9.9	10.9
Ratio [3]	37.5%	30.8%	24.6%	22.9%	22.5%	

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[1] These are projections under proposed law. They assume the legislative proposals and regulatory initiatives contained in the President's budget for fiscal year 1987 will be implemented. Also, they are based on the economic assumptions in the President's fiscal year 1987 budget.

[2] Recoveries of loans to other trust funds.

[3] Funds at end of year as a percent of next year's outlays.

Note: Totals may not add due to rounding.

Source: President's fiscal year 1987 budget, historical tables.

Chart 9

Medicare Trust Fund Estimates

This chart shows the status of the two trust funds in each of seven fiscal years. The data in this chart were obtained from the Health Care Financing Administration and are based on current law and the President's Budget assumptions. The projections assume the regulatory initiatives contained in the President's fiscal year 1987 Budget will be implemented. The Administration estimates that those initiatives will reduce trust fund outlays by significant amounts. The data also take into account the return of amounts loaned from the Hospital Insurance Trust Fund to the Old-Age and Survivors Insurance program.

In the past, the projections based on the President's Budget assumptions have tended to be more optimistic than those later used by the trust fund actuaries. It is possible that the projections that will be used by the trust fund actuaries in preparing the 1986 report of the program trustees will again reflect less optimistic assumptions.

Chart 10.—HEALTH PROGRAMS

Administration Estimates [1]

[Dollars in billions]

	Fiscal year—	
	1986	1987
Medicare trust funds:		
Hospital Insurance:		
Income	$56.7	$62.7
Outgo	49.2	49.9
Net increase	7.5	12.8
Supplementary Medical Insurance:		
Income	25.0	26.9
Outgo	25.2	27.6
Net increase	−.3	−.7
Medicaid:		
Federal expenditures	24.7	25.9
State costs	20.2	21.9
Total program	44.9	47.8
Maternal and Child Health Block Grant	.5	.5

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[1] Medicare and Medicaid estimates both assume the regulatory initiatives in the President's fiscal year 1987 budget will be implemented. Medicare estimates also assume the President's legislative proposals will be implemented. The President's budget does not propose any modifications to the Maternal and Child Health Block Grant. All estimates are based on the economic assumptions in the President's fiscal year 1987 budget.

Note: Totals may not add due to rounding.

Source: Medicare estimates from President's budget, historical tables, fiscal year 1987. Medicaid estimates from Health Care Financing Administration, unpublished tables. Maternal and Child Health Block Grant estimates from President's budget, Appendix, fiscal year 1987.

Chart 10

Health Programs

MEDICARE

Medicare is a nationwide health insurance program for the aged and certain disabled persons authorized by Title XVIII of the Social Security Act. It consists of two parts: part A, the Hospital Insurance program, provides protection against the costs of inpatient hospital services and related institutional services; part B, the Supplementary Medical Insurance program, is a voluntary program which provides protection against the costs of physicians' services and other medical services.

The Social Security Amendments of 1983 (P.L. 98-21) authorized a new method of Medicare reimbursement for hospital services known as the prospective payment system (PPS). Effective for hospital cost reporting periods that began on or after October 1, 1983, payments are made on the basis of predetermined rates which represent the average cost, nationwide, of treating a Medicare patient according to his or her diagnosis. The classification system used to group hospital inpatients according to their diagnoses is known as diagnosis related groups (DRG's). The law provides a three-year transition period during which a declining portion of the total prospective payment is based on a hospital's historical reasonable costs and an increasing portion is based on a combination of regional and national DRG rates. Beginning in the fourth year, payments will be determined totally under a national DRG payment methodology. No costs or savings were attributable to this provision in fiscal year 1984 or 1985, due to the requirement known as "budget neutrality" which specified that DRG rates were to be adjusted so that total payments under PPS equal the payments which would have been made under prior law. The budget neutrality requirement does not apply to fiscal year 1986 and subsequent years. Beginning with 1986, P.L. 98-21 required the Secretary of Health and Human Services to determine an appropriate increase to the payment amounts, taking into consideration the recommendations of the Prospective Payment Assessment Commission.

The President's Budget for fiscal year 1986 contained several Medicare proposals including a freeze on the Medicare prospective payment rates and an extension of the freeze on physicians' fees. Final regulations to freeze the prospective payment rates effective October 1, 1985, were published in the Federal Register September 3, 1985 (50 FR 35645). H.R. 3128, the Consolidated Omnibus Budget Reconciliation Act of 1985, would have modified these provisions, but the measure has not received final approval in both Houses. However, the Emergency Extension Act of 1985 (P.L. 99-107, as amended by P.L. 99-201), froze the PPS payment methodology in effect on September 30, 1985 (under the existing transition schedule), through March 14, 1986. The legislation also extended through March 14, 1986 the freeze on physicians' fees initiated by the Deficit Reduction Act of 1984 (P.L. 98-369).

Under the special rule for sequestrations of Medicare benefits in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), Medicare outlays for covered services would be reduced by a maximum of 1 percent for fiscal year 1986 and 2 percent for each later year in which there is sequestration. According to P.L. 99-177, however, Medicare administrative expenses are fully sequesterable and are subject to the uniform reduction percentages for nondefense programs.

The Administration budget estimates that, under proposed law, total cash outgo during fiscal year 1987 from the two Medicare trust funds will be $77.5 billion. Of this amount, benefit payments account for $75.6 billion. The Hospital Insurance Trust Fund in fiscal year 1987 is estimated to have $62.7 billion in income and $49.9 billion in outgo, for a net increase of $12.8 billion. The Supplementary Medical Insurance trust fund in fiscal year 1987 is estimated to have $26.9 billion in income and $27.6 in outgo, resulting in a deficit of 734 million.

MEDICAID

Medicaid is a federally-aided, State-designed and administered program, authorized by Title XIX of the Social Security Act, which provides medical assistance for certain categories of low income persons who are aged, blind, disabled, or members of families with dependent children. Subject to Federal guidelines, States determine eligibility and the scope of benefits to be provided. The Federal government's share of Medicaid expenditures is tied to a formula inversely related to the per capita income of the State. Federal matching for services varies from 50 percent to 78 percent. Administrative costs are generally matched at 50 percent except for certain items which are subject to higher matching rates. The Deficit Reduction Act of 1984 (P.L. 98-369) expanded Medicaid's coverage for pregnant women and young children.

Under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L 99-177), Federal Medicaid matching grants to the States—both for program benefits and State administrative expenses—are exempt from sequestrations. Federal Medicaid administrative expenses, however, are fully sequesterable, subject to the uniform reduction percentages for nondefense programs.

The Administration budget projects total Federal-State Medicaid costs for fiscal year 1987 under current law to be $47.8 billion, of which the Federal share is $25.9 billion. Of the Federal amount, $23.6 billion represents payments for benefits. The States share of total Medicaid expenditures for fiscal year 1987 is estimated at $21.9 billion.

MATERNAL AND CHILD HEALTH BLOCK GRANT

Title V of the Social Security Act authorizes the Maternal and Child Health Services Block Grant, which provides funding for the following programs: Maternal and child health and crippled children's services, rehabilitation for disabled children receiving supplemental security income, lead-based paint poisoning prevention, genetic disease, sudden infant death syndrome, hemophilia, and adolescent pregnancy. Under the Title V block grant, States determine the level of services. Typically States have supported such health services as well-child checkups and those available in maternity clinics. Public Law 97-35 created the block grant by adding to maternal and child health and crippled children services those functions described above. The Federal/State matching requirements were also changed and now require the States to spend 75 cents to receive a dollar.

The Deficit Reduction Act of 1984 permanently authorized $478 million for the block grant. P.L. 99-178 appropriated the full amount for fiscal year 1986. Of the amounts appropriated, the Secretary is authorized to use not less than 10 percent, nor more than 15 percent, for projects of regional and national significance, research, training and certain other activities.

Under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), Maternal and Child Health Services Block Grant funds are fully sequesterable, subject to the uniform reduction percentages for nondefense programs.

Chart 11.—HEALTH PROGRAMS: ADMINISTRATION PROPOSALS

[Dollars in millions]

	Fiscal year—				Total
	1986	1987	1988	1989	
MEDICARE					
Legislative proposals affecting outlays:					
1. Reduce indirect medical education payment	0	−$990	−$1,335	−$1,490	−$3,815
2. Establish home health copayments	0	−100	−110	−130	−340
3. Freeze clinical laboratory fees	−$15	−55	−40	−40	−150
4. Delay initial eligibility to first full month	0	−265	−300	−325	−890
5. Increase part B deductible	0	−310	−490	−615	−1,415
6. Establish voluntary vouchers	0	50	50	50	150
7. Extend Medicare as secondary payer for working aged over 69 and disabled dependents	0	−540	−585	−635	−1,760
8. Apply cost-sharing to ambulatory surgery	0	−10	−10	−10	−30
9. Simplify processing of part A bills	0	−4	−4	−4	−12
10. Eliminate ESRD networks	0	−1	−1	−1	−3
Subtotal	−$15	−$2,225	−$2,825	−$3,200	−$8,265
Legislative proposal affecting receipts:					
11. Increase and modify part B premiums	0	$725	$1,787	$3,240	$5,752
Subtotal	0	$725	$1,787	$3,240	$5,752
Regulatory initiatives affecting outlays:					
12. Apply prospective payments to capital	0	−$456	−$1,436	−$2,280	−$4,172
13. Modify direct medical education payments	−$10	−495	−660	−805	−1,970
14. Modify indirect medical education payments	−20	−120	−180	−180	−500
15. Modify physician payments	0	−432	−543	−655	−1,630
16. Modify ESRD rates	−20	−90	−110	−125	−345
17. Modify non-physician payments	−20	−70	−90	−110	−290
18. Modify payments for return on equity	−8	−34	[illegible]	−40	−120
19. Revise waiver of liability process	−47	−93	[illegible]	−114	−358
Subtotal	−125	−1,790	−3,161	−4,309	−9,385
Total	−$140	−$4,740	−$7,773	−$10,749	−$23,402
MEDICAID					
Legislative proposals affecting outlays:					
1. Limit growth of Medicaid payments	0	−$1,000	−$2,323	−$3,155	−$6,478
2. Limit administrative costs	0	−260	−268	−278	−806
Subtotal	0	−$1,260	−$2,591	−$3,433	−$7,284

Chart 11.—HEALTH PROGRAMS: ADMINISTRATION PROPOSALS—Continued

[Dollars in millions]

	Fiscal year—				Total
	1986	1987	1988	1989	
Regulatory initiatives affecting outlays:					
3. Increase third party liability activities	0	−$100	−$200	−$225	−$525
4. Require second surgical opinion programs[1]	0	(80)	(83)	(88)	(251)
5. Limit prescription drug reimbursement[1]	0	(38)	(40)	(43)	(121)
Subtotal	0	−100	−200	−225	−525
Total	0	−$1,360	−$2,791	−$3,658	−$7,809

[1] Under Administration estimates, these savings are not deducted from total current spending projections and therefore do not reduce Federal Medicaid payments.

Source: Health Care Financing Administration, unpublished tables.

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Chart 11

Health Programs: Administration Proposals

MEDICARE

The Administration's fiscal year 1987 budget contains various legislative proposals and regulatory initiatives designed to achieve an estimated $4.015 billion in outlay savings and $725 million in additional income—a net gain of $4.740 billion to the Medicare program in fiscal year 1987.

Legislative Proposals Affecting Outlays

1. *Reduce the indirect medical education payment.*—The Administration budget proposes to eliminate the doubling of the indirect medical education adjustment factor for all teaching hospitals. This adjustment factor is used to reimburse the indirect costs incurred by teaching hospitals (such as the costs of ordering additional tests by interns and residents). The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $990 million. The Administration budget also proposes a related regulatory initiative to change the payment formula. This initiative is described below.

2. *Establish home health copayments.*—The Administration budget proposes to establish a copayment equal to 1 percent of the inpatient hospital deductible (estimated at $5.72 in 1987) on all home health visits, except those (1) following an inpatient hospital or skilled nursing facility stay for the treated condition or related condition, or (2) visits provided after 100 visits in a calendar year. The Administration budget also proposes to institute additional medical review of the appropriateness of home health services. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $100 million.

3. *Freeze clinical laboratory fees.*—The Administration budget proposes to freeze for one year the fee schedule amounts for clinical laboratory services. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $55 million. The Administration indicates that it proposes to establish, by regulatory initiative, reasonable cost limits for clinical laboratory fees when the fee schedule for tests performed in hospital outpatient departments expires July 1987.

4. *Delay initial eligibility date for Medicare entitlement.*—The Administration proposes to delay eligibility for Medicare until the first day of the first full month in which the beneficiary attains age 65. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $265 million.

5. *Increase and index part B deductible.*—The Administration budget proposes to increase the part B deductible from $75 to $100 in 1987, and then index the deductible to the Medicare Economic

Index beginning in 1988. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $310 million.

6. *Establish a voluntary voucher program.*—The Administration budget proposes to establish a voluntary Medicare voucher program under which beneficiaries could elect coverage under a private health benefits plan rather than Medicare. Beginning in 1987, private plans that enroll a Medicare beneficiary would be paid premiums set at 95 percent of the Medicare adjusted average per capita cost and, in exchange, would be required to provide benefits at least equivalent in value to current Medicare benefits. The Administration estimates that this legislative proposal would increase outlays for fiscal year 1987 by $50 million.

7. *Extend Medicare as secondary payer for working aged over 69 and disabled spouses.*—The Administration budget proposes to make Medicare the secondary payer for beneficiaries who are over age 69 or who are disabled if they or their spouse work and elect to make their employer-based health insurance primary. The Tax Equity and Fiscal Responsibility Act of 1982 made Medicare the secondary payer for working beneficiaries age 65–69 who are covered under employer-based health insurance. The Deficit Reduction Act of 1984 extended this provision to beneficiaries covered under a working spouse's employer health plan, where that working spouse is under age 65. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $540 million.

8. *Apply cost-sharing to ambulatory surgery.*—The Administration budget proposes to impose the standard part B coinsurance and deductible for surgery done in ambulatory surgical centers. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $10 million.

9. *Simplify processing of part A bills.*—The Administration budget proposes to assign the responsibility for collecting deductible and coinsurance amounts from beneficiaries who stay in two or more hospitals during a single spell of illness in the order in which hospitals submit claims for Medicare payments. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $4 million.

10. *Eliminate end-stage renal disease networks.*—The Administration budget proposes to eliminate the end-stage renal disease (ESRD) networks. The ESRD networks evaluate and coordinate end-stage renal disease services provided within assigned geographic areas. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $1 million.

Legislative Proposal Affecting Receipts

11. *Increase and modify part B premiums.*—The Administration budget proposes to establish separate premiums for individual beneficiaries and third-party payers. For individuals, the premium would be increased over the next five years. Beginning with calendar year 1987, the percent of program costs covered by the premium would rise two percentage points per year so that the amount the beneficiary pays would increase from an estimated 25 percent of program costs to a rate equal to 35 percent of estimated program costs in 1991. For calendar year 1987, the monthly premium would

increase from $17.80 to $18.70. For third-party payers that buy Medicare part B coverage on behalf of their beneficiaries (primarily States which pay the Medicare premium for their Medicaid beneficiaries), the premium would be set at 50 percent of costs. The Administration estimates that this legislative proposal would increase revenues for fiscal year 1987 by $725 million.

Regulatory Initiatives Affecting Outlays

12. *Establish a prospective payment policy for reimbursement of hospital capital costs.*—The Administration budget proposes to include capital costs in the prospective payment system rates. A fixed payment that includes both capital and operating costs would be made for each Medicare admission. The national portion of the new capital payment amount would be based on actual Medicare capital costs in a base year, less special payments and allowances historically made to certain institutions (e.g., return on equity capital, and interest earned from funded depreciation and charitable contributions). The revised payment system would be phased-in over four years. Hospital capital costs are excluded from the prospective payment system until October 1, 1986 and are currently being reimbursed on a reasonable cost basis. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1987 by $456 million.

13. *Modify direct medical education payments.*—The Administration budget proposes to eliminate payments for education subsidies while retaining reasonable payments for services. The proposal would establish hospital-specific limits on payments for intern and resident salaries, and would eliminate payment for nursing and allied health training, and payment of education expenses for interns and residents. Medicare currently pays hospitals on a reasonable cost basis for the direct costs of medical education. These costs include resident and teaching salaries and education expenses of residents, allied health professionals and nurses. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1986 by $10 million and for fiscal year 1987 by $495 million.

14. *Modify indirect medical education payments.*—The Administration budget proposes to change the current indirect medical education payment formula to reflect that Medicare per resident costs increase at a slower rate as hospitals teaching programs get larger. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1986 by $20 million and for fiscal year 1987 by $120 million.

15. *Modify physician payments.*—The Administration budget proposes to: reduce the Medicare Economic Index (used to limit increases in prevailing charge levels of physician fees reimbursed under the program) to take into account a revision of housing cost estimates; reduce payments to physicians for procedures whose lower costs due to technological or productivity advances, or geographic variations have not been reflected in charges; limit payments for lens replacements after cataract surgery and adopt stricter criteria to ensure the medical necessity of lens replacements; and limit payments to physicians who provide standby anesthesia services, and limiting payments for unnecessary assistants

at surgery. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1987 by $432 million.

16. *Modify end-stage renal disease rates.*—The Administration budget proposes to revise the weighting of the end-stage renal disease (ESRD) treatment and facility mix in rate computations. This weighting would reduce the facility rates. Physician rates would be revised to take into account a recent General Accounting Office study. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1986 by $20 million and for fiscal year 1987 by $90 million.

17. *Modify non-physician payments.*—The Administration budget proposes to review reasonable charge levels and revise payments where appropriate to reduce excessive charges for non-physician services (primarily durable medical equipment). The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1986 by $20 million and for fiscal year 1987 by $70 million.

18. *Modify payments for return on equity.*—The Administration budget proposes to reduce the allowance for return on equity capital for skilled nursing facilities and outpatient hospital services from 150 percent to 100 percent of the rate of return earned on trust fund investments. The proposal would also eliminate the return on equity capital allowance for all proprietary providers other than skilled nursing facilities and hospitals. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1986 by $8 million and for fiscal year 1987 by $34 million.

19. *Revise waiver of liability process.*—The Administration budget proposes to repeal the waiver of liability so that reimbursement would be denied for all uncovered services. Under current law, Medicare payments may be made for certain uncovered items or services furnished by an institutional provider of services, if the provider did not know, and could not reasonably have been expected to know, that payment had been disallowed. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1986 by $47 million and for fiscal year 1987 by $93 million.

MEDICAID

The Administration's fiscal year 1987 budget contains various legislative proposals and regulatory initiatives designed to achieve an estimated $1.390 billion in outlay savings to the Medicaid program in fiscal year 1987.

Legislative Proposals Affecting Outlays

1. *Limit growth of Medicaid payments.*—The Administration budget proposes to limit Federal Medicaid expenditures for medical services to $23.6 billion in fiscal year 1987. This limit represents a $1.3 billion reduction in Federal payments below current fiscal year 1987 spending projections. Federal payments to States would continue to match State expenditures, but only up to each State's individual limit. Federal spending increases in future years would be tied to the medical care component of the Consumer Price Index. States would be given greater flexibility to design and oper-

ate their Medicaid programs. As part of this proposal, the Administration budget proposes to establish a one-time $300 million "hardship pool" in fiscal year 1987. These funds would be used to assist States with costs over their limit. The Administration estimates that this legislative proposal would decrease outlays for fiscal year 1987 by $1,000 million.

2. *Limit administrative costs.*—The Administration budget proposes to eliminate special higher matching rates for information systems, family planning administration, medical personnel used for survey and certification activities, contracts with peer review organizations, and fraud control. These activities would be matched at 50 percent. The Administration budget also proposes to reduce the matching rate for States with per recipient administrative expenditures over 175 percent of the national median. The matching rate would be reduced from 50 percent to 25 percent for those costs which exceed the 175 percent limit. The Administration estimates that this legislative proposal would reduce outlays for fiscal year 1987 by $260 million.

Regulatory Initiatives Affecting Outlays

3. *Increase third-party liability activities.*—The Administration budget proposes to: (1) require States to collect health insurance information during the eligibility determination process; (2) use data obtained from State unemployment agencies to identify Medicaid recipients who may have employer-related health insurance; and (3) require States to perform trauma code edits to identify accident-related insurance. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1987 by $100 million.

4. *Require second surgical opinion programs.*—The Administration budget proposes to require States to operate mandatory second surgical opinion programs and inpatient hospital pre-admission review programs. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1987 by $80 million. However, because of the limit on Federal Medicaid payments outlined above proposal will not reduce Federal Medicaid payments.

5. *Limit prescription drug reimbursement.*—The Administration budget proposes to modify prescription drug reimbursement under Medicaid, including initiatives to increase generic drug substitution. The Administration estimates that this regulatory initiative would reduce outlays for fiscal year 1987 by $80 million. However, because of the limit on Federal Medicaid payments outlined above proposal will not reduce Federal Medicaid payments.

Chart 12.—REVENUE SHARING; INTEREST ON THE PUBLIC DEBT: CURRENT LAW

[In billions]

	Fiscal year—	
	1986	1987
Revenue sharing	$4.4	$0
Interest	142.7	148.0

Note: Committee decisions on deficit and debt limit determine interest estimate.

Chart 12

Revenue Sharing; Interest on the Public Debt

GENERAL REVENUE SHARING

General revenue sharing has been part of the Federal Government's efforts to assist local governments. In 1983, Congress approved legislation to extend this program through September 30, 1986. The 1983 extension legislation provided for outlays of $4.6 billion in each of the fiscal years 1984, 1985, and 1986. This amount is distributed to local governments. Since the inception of general revenue sharing, total payments of approximately $76 billion have been made to local and State governments, covering calendar years 1972 through 1983 and ending with the January 1985 payment.

The administration is proposing to end general revenue sharing effective at the end of fiscal year 1986, when the current authorization for the program expires. In addition, the administration proposes to rescind the final quarterly payment resulting from fiscal year 1986 budget authority, which would be paid in fiscal year 1987.

Outlays for the program are estimated to be $4.4 billion in fiscal 1986, which includes the final quarterly payment for fiscal 1985 and three fiscal 1986 payments. No outlays are proposed for fiscal year 1987 other than minor "wind-down" administrative expenses associated with program termination.

INTEREST ON THE PUBLIC DEBT

Budget outlays for interest on the public debt for fiscal year 1987 are estimated to rise to a level of $207.5 billion from $196.1 billion in fiscal year 1986. These projected increases result from the financing of budget deficits for each of these years and from Federal borrowing to finance off-budget Federal entities.

Net outlays for interest on the public debt, as identified in Chart 12, reflect offsetting payments from the Federal Financing Bank, interest charges by Treasury to Federal agencies and the public, and interest received by trust funds from the Treasury. The net outlays for interest on the public debt amount to $142.7 billion in fiscal year 1986 and $148.0 billion in fiscal year 1987. When the committee has completed its decisions on revenues, expenditures, and budget deficits, the appropriate interest figures can be calculated.

It should be noted that the budget assumes that interest rates will continue to decline over the next few years. The interest outlay estimate assumes that the 91-day bill rate will drop gradually from an average of 7.5 percent in calendar year 1985 to 4.8 percent by 1989.

Chart 13.—TRADE; PENSION BENEFIT GUARANTY CORPORATION: ADMINISTRATION PROPOSALS

[In millions]

	Fiscal year—				Total
	1986	1987	1988	1989	
Trade adjustment assistance		NA	NA	NA	NA
Customs user fees*	$200	$520	$525	$530	$1,775
Pension Benefit Guaranty Corporation*		199	214	227	640

*Offsetting receipts.

NA: Not available.

Chart 13

Trade; Pension Benefit Guaranty Corporation: Administration Proposals

TRADE ADJUSTMENT ASSISTANCE

The Trade Adjustment Assistance (TAA) program has provided benefits to workers laid off and firms injured on account of import competition. Under the program for workers, administered by the Labor Department, certified workers are entitled to cash payments essentially equivalent to extended unemployment insurance benefits, and they may also receive job-search, relocation, and retraining benefits. The program for firms, administered by the Commerce Department, makes available to approved firms funds for loans, loan guarantees, and technical assistance.

Originally established under the Trade Expansion Act of 1962, the TAA program was authorized until September 30, 1985. Thereafter in the last session, it was temporarily extended several times. However, with the failure to enact either the Consolidated Omnibus Budget Reconciliation Act of 1985 (which contains a comprehensive reform and extension of the program for six years) or an additional temporary extension, authority for the program lapsed on December 19, 1985.

With the expiration of authority for the program, the Administration has ceased making cash payments to workers or providing benefits to firms. For this fiscal year, however, it is continuing to provide some job-search, relocation, and retraining benefits to workers, based on an appropriation of $26 million for that purpose in the Continuing Resolution for fiscal year 1986.

In its 1987 budget request, the Administration proposes that the entire TAA program not be restored. It argues that the program is unduly restrictive, discriminates against workers dislocated by reasons other than import competition, and has not effectively promoted adjustment. The Administration believes that the worthwhile elements of the TAA program can best be handled through more general dislocated worker program of the Job Training Partnership Act (JTPA). The Administration has requested a fiscal year 1986 supplemental appropriation of $74 million for the JTPA program, which is not within the jurisdiction of the Finance Committee.

In fiscal year 1984, approximately $65 million was spent on the worker TAA programs and approximately $26 million on the firm TAA programs, for a total of $91 million. In fiscal year 1985, the worker programs cost approximately $79 million and the firm programs approximately $20 million, for a total of $99 million.

CUSTOMS USER FEES

The Administration's fiscal year 1987 budget contains a proposal to collect Customs processing fees estimated to achieve $520 million in outlay savings in fiscal year 1987.

This proposal would assess Customs fees for the processing of all merchandise imports, passengers, and commercial carriers and private carriers. The Customs processing fees tentatively agreed to in the Reconciliation Conference on H.R. 3128 did not include fees for the processing of imported merchandise, but did include a schedule of fees for the processing of certain arriving passengers, commercial carriers and private carriers.

PENSION BENEFIT GUARANTY CORPORATION

The Pension Benefit Guaranty Corporation (PBGC) pays benefits to employees whose employers terminate an underfunded pension plan. Employers make a premium payment to the PBGC for this protection. The current premium is $2.60 per participant.

The Administration proposal would increase the PBGC premium from $2.60 per participant to $8.10 per participant. The proposal would be effective January 1, 1986. The proposal would also impose structural changes to the PBGC program. These changes would put limits on the ability of employers to maintain plans without adequate funding or to terminate their plan and make the PBGC liable for benefits. Some of these changes (including the increase in premiums) are similar to those proposed in last December's Reconciliation bill.

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Chart 14.—REVENUES: PRESENT LAW

[Dollars in billions]

	Fiscal year—	
	1986	1987
Individual income tax	$353.7	$386.0
Corporation income tax	70.9	86.7
Social insurance taxes[1]	280.4	302.8
Excise taxes	34.6	35.2
Estate and gift taxes	6.1	5.7
Customs duties	12.4	12.9
Miscellaneous receipts	19.0	21.1
Total	$777.1	$850.4

[1] Includes off-budget taxes (social security).

Chart 14

Revenues: Present Law

Federal revenues are in large part composed of receipts from income and payroll taxes. The administration budget estimates that in fiscal year 1986 these revenues together with receipts from excise taxes, estate and gift taxes and other revenue sources will yield a total of $777.1 billion under present law. For fiscal year 1987, the administration budget projects a revenue yield of $850.4 billion under present law.

Income taxes paid by individuals are estimated to amount to $386 billion for fiscal year 1987. Revenues from this source, the largest single source of Federal revenue, will amount to 45.4 percent of total Federal revenue.

Income taxes paid by corporations are estimated at $86.7 billion for fiscal year 1987, amounting to 10.2 percent of total Federal revenue.

Social insurance taxes and contributions, composed of social security and other payroll taxes, unemployment insurance taxes and deposits, Federal employee retirement contributions, and premium payments for supplementary medical insurance, are expected to total $302.8 billion. Receipts from these sources in fiscal year 1987 will account for approximately 35.6 percent of the total Federal revenues.

Excise taxes imposed on selected commodities, services, and activities (including crude oil production) are expected to provide $35.2 billion during fiscal year 1987.

Estate and gift taxes imposed on the value of property held at death and on inter vivos transfers of property are projected to produce $5.7 billion during fiscal year 1987.

Customs duties levied on imports, other taxes, and miscellaneous receipts (such as deposits of earnings by the Federal Reserve System) are expected to total $34 billion for fiscal year 1987.

Chart 15.—EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS [1]

[In billions of dollars]

	1986	1987	1988	1989	Total
1. Higher education tax incentive		*	*	*	*
2. Tuition tax credit		−0.4	−0.8	−1.2	−2.4
3. Railroad unemployment insurance coverage		0.1	0.1	0.1	0.3
4. IRS Revenue Provisions		2.1	3.3	4.5	9.9
5. Hazardous substance response trust fund [2]		0.1	0.1	0.1	0.3
6. Black lung disability trust fund [2]		0.2	0.2	0.2	0.6
7. State and local deposit of payroll taxes		0.4	0.3	1.2	1.9
8. Equitable taxation of rail industry benefits		*	0.1	0.1	0.2
9. Repeal gasohol and bus exemptions [2]		0.2	0.2	0.2	0.6
10. Cigarette excise tax [2]	0.8	1.7	1.7	1.7	5.9
11. Inland waterways trust fund [2]		0.1	0.1	0.1	0.3
12. Railroad windfall subsidy financing		0.1	0.1	0.1	0.3
13. Increase in employee contribution to civil service retirement.		0.9	1.2	1.2	3.3
14. Increase in D.C. employer contribution to civil service retirement.		*	*	0.1	0.1
15. Petroleum overcharge restitution funds		1.0			1.0
16. Nuclear Regulatory Commission user fees		0.2	0.2	0.2	0.6
17. Other	−0.1	−0.4	−0.8	−1.4	−2.7
Total	0.7	6.3	5.9	7.2	20.1

*$50 million or less.

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

[2] Net of income tax offsets.

Chart 15

Effect of proposed legislation and administrative action on receipts

ADMINISTRATION PROPOSALS

The Administration has proposed a number of changes to the tax law to introduce new tax incentives, change the structure of existing incentives, or improve compliance with the tax laws.

The Administration's budget does not include any fundamental tax reform legislation, which is intended to be revenue-neutral. However, once tax-reform legislation has been enacted, the Administration plans to repropose an enterprise zone program that would provide tax incentives for redevelopment of economically distressed areas.

DESCRIPTION OF PROPOSALS

1. *Tax incentives for higher education.*—The Administration is again proposing legislation to exclude from taxation the earnings on savings deposited in special accounts that would be used to pay future higher education expenses of dependent children. The maximum annual contribution to these accounts would be $1,000 per child. However, this maximum would be reduced 5 cents for each dollar that the taxpayer's adjusted gross income exceeds $40,000, so that any taxpayer with adjusted gross income in excess of $60,000 would be ineligible.

Eligible expenses generally would be tuition and room and board incurred by a full-time student enrolled in a postsecondary education program leading to a degree or certification (including graduate school). In the case of part-time students in such a program, only tuition would qualify. Special savings accounts would qualify only if the dependent children on whose behalf the savings were made were under age 18. In no case could an account be kept open for a child over the age of 25. Eligible expenses would not include amounts paid to schools that follow a racially discriminatory policy. This proposal would be effective January 1, 1987, and is estimated to reduce receipts by less than $50 million in 1987, $0.2 billion in 1988, and $0.3 billion in 1989.

2. *Tuition tax credit.*—The Administration is reproposing legislation to provide taxpayers a nonrefundable credit for 50 percent of tuition expenses paid to private elementary and secondary schools for certain qualified dependents. The maximum credit allowable for each dependent would be $100 in 1986, $200 in 1987, and $300 thereafter, with the maximum amount in each year phased out for taxpayers with adjusted gross incomes between $40,000 and $60,000. Credits would not be allowed for expenses paid to private schools that follow a racially discriminatory policy. This proposal, which would be effective for expenses incurred after July 31, 1986,

is estimated to reduce receipts by $0.4 billion in 1987, $0.6 billion in 1988, and $0.9 billion in 1989.

3. *Extension of Federal/State unemployment insurance coverage to railroad employment.*—Railroad employment is the only sector not covered by the Federal/State unemployment insurance system. The separate Railroad Sickness and Unemployment Insurance Fund (RSUI), which is financed by payroll taxes paid by rail employers, is deeply in debt to the rail pension fund and under present law is no longer permitted to borrow from the pension fund to cover benefit payment shortfalls. As a result, RSUI may be unable to pay benefits on a timely basis.

The administration proposes to extend Federal/State unemployment insurance coverage to railroad employment. Under a transitional Federal program, all rail workers becoming unemployed after September 30, 1986, would be eligible for generally higher benefits under the Federal/State system. Existing RSUI debt repayment contributions would remain in place to finance sickness payments and ensure that RSUI's debt to the rail pension fund is repaid. This proposal is estimated to increase receipts by $0.1 billion in each year, 1987–1989.

4(a). *IRS revenue initiative.*—In 1987, the Internal Revenue Service will begin initial phases of an initiative to close the gap between taxes owed and paid, and to improve overall compliance with the tax laws. Based on a Grace Commission recommendation, examination staffing will be increased by 2,500 full-time equivalent personnel in each year, 1987–89. Advance hiring will begin in 1986. Receipts are estimated to increase by $0.6 billion in 1987, $1.5 billion in 1988, and $2.6 billion in 1989, as a result of this initiative.

Internal Revenue Service (IRS) user fees.—The Administration again is proposing that the IRS impose a user fee on letters of determination for pension plans and tax-exempt organizations. These letters provide approval of tax status. A user fee also is proposed for private letter rulings, which are requests by taxpayers for clarification of the IRS position in unprecedented tax situations. These fees, proposed to become effective October 1, 1986, are estimated to increase receipts by less than $0.1 billion in each year, beginning in 1987.

4(b). *IRS cost of collection charge.*—Under current law, a penalty is assessed on tax payments that are overdue. The penalty rate is adjusted semiannually on January 1 and July 1, and is equal to the average prime rate charged by commercial banks during the six-month period ending on the preceding September 30 and March 31, respectively. The Administration proposes to replace the existing penalty with a cost of collection charge. The proposal would apply to returns due on or after January 1, 1987, and is estimated to increase receipts by $0.3 billion in 1987, and $0.4 billion in 1988 and 1989.

4(c). *IRS automated examination system.*—Beginning in 1987, the productivity of IRS auditors is expected to increase significantly when they are equipped with portable computers that will enable them to audit tax returns more promptly and efficiently. Additional productivity gains and reductions in support staff are expected in later years when desktop and mainframe computers are added and linked. Receipts collections are estimated to increase by $0.3

billion in 1987, $0.8 billion in 1988, and $1.2 billion in 1989 under this automated system.

5. *Hazardous substance response trust fund ("Superfund").*—The Administration again proposes to reauthorize and expand the taxing authority under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980. The taxes levied under this authority are used to finance the Hazardous Substance Response Trust Fund, commonly referred to as "Superfund," which pays for the cleanup of hazardous waste sites. The proposed taxes, which are estimated to increase receipts to the trust fund by $0.4 billion over current law in 1986 and by $0.9 billion in each year, 1987–1989, would be sufficient to finance the level of spending proposed by the Administration for hazardous waste site cleanup in 1986 and later years. No appropriation from the general fund of the Treasury will be requested.

6. *Black lung disability trust fund.*—Black lung disability benefits are paid to coal miners (or to their survivors) who have been determined to be totally disabled by black lung disease. Benefits for miners determined to be eligible prior to 1973 are paid for by the general fund of the Treasury. Benefits for miners determined to be eligible since 1973 are the responsibility of the coal mining industry—either the coal mine operator found responsible for an individual miner's disease, or the industry as a whole through the black lung disability trust fund. This fund is financed primarily by an excise tax on coal production. Additional funding includes repayable advances from the Treasury when trust fund liabilities exceed income. Since benefits have exceeded revenues for a number of years, the cumulative trust fund deficit is increasing. In order to move toward the future solvency of the trust fund and to fulfill the original intent of the Congress that the cost of their program be borne by the coal industry, the Administration is proposing an increase in the coal tax that would freeze the cumulative deficit over the next five years. This change in the coal tax is estimated to increase receipts to the trust fund by $0.2 billion in each year, 1987–89.

7. *State and local deposit of social security payroll taxes.*—States currently are required to make semimonthly deposits of social security contributions (payments in lieu of taxes) on their own behalf and for sub-State entities. Private employers and the Federal Government are required to deposit these taxes under an accelerated schedule. The Administration is requesting legislation that would remove the States' liability for deposit of contributions by sub-State entities and conform the State and local government deposit schedule to the private sector schedule over a three-year period beginning October 1, 1986. Late deposits by State and local employers would be subject to the same penalty rate (the prime interest rate) as applies to private employers, rather than the current interest charge of only six percent. These changes are estimated to increase receipts by $0.4 billion in 1987, $0.3 billion in 1988, and $1.2 billion in 1989.

8. *Taxation of rail industry benefits.*—Two types of benefits are payable under the Railroad Retirement program. Tier I benefits are generally the equivalent of social security. Tier II benefits represent a supplemental industry pension. Under current tax law,

only a portion of tier I benefits are subject to the Federal income tax. Payments received under the tier II rail industry pension plan are subject to the Federal income tax to the extent that they exceed previously taxed contributions. However, some tier I benefits are not actually equivalent to social security benefits. The Administration is proposing that, effective January 1, 1987, these pension payments be taxed under the same rules that apply to payments received under the industry pension plan. This proposal is estimated to increase receipts by less than $50 million in 1987 and by $0.1 billion in both 1988 and 1989.

9. *Repeal gasohol and bus exemptions.*—Under current law, gasohol is provided a 5-cents-per-gallon exemption from the 9-cents-per-gallon excise tax on gasoline and diesel fuels; certain alcohol fuels, such as methanol and ethanol, are exempt from the tax. Public and private bus operators are largely exempt from existing tire, gasoline, and diesel fuel taxes. The Administration proposes to repeal these exemptions effective October 1, 1986. These changes are estimated to increase receipts to the trust fund by $0.2 billion in each year, 1987–89.

10. *Extension of temporary doubling of cigarette excise taxes.*—TEFRA temporarily doubled the excise tax on packages of cigarettes to 16 cents effective January 1, 1983, through September 30, 1985. Recent legislation extended the temporary increase through March 14, 1986. Further extension of this tax is estimated to increase receipts $0.8 billion in 1986, and $1.7 billion in each subsequent year.

11. *Inland waterways trust fund.*—Under current law, a diesel fuel tax of 10 cents per gallon is levied on commercial users of the inland waterways and deposited in the inland waterways trust fund. The Administration proposes to double the existing tax over 10 years, beginning in 1988. This proposal is included in legislation pending in Congress and is estimated to increase receipts by small amounts in the initial years.

12. *Rail sector financing of a portion of windfall subsidy.*—The Federal Government subsidizes 100 percent of the windfalls created when railroad retirement and social security benefits were uncoordinated. The General Accounting Office has found that rail industry pensions are reduced by some 25 percent of windfall amounts, and has suggested that it may be more accurate to subsidize only 75 percent of total windfall costs. The Administration is proposing rail sector financing of 25 percent of windfall benefits. This change, proposed to become effective October 1, 1986, is estimated to increase receipts $0.1 billion in each year, beginning in 1987.

13. *Increase in employee contributions to civil service retirement (CSR).*—Employees currently contribute 7 percent of wages and salaries to CSR, employing agencies contribute 7 percent, and the general fund of the Federal Government contributes the remaining cost. The Administration proposes to increase employee contributions (including District of Columbia employees who are under CSR) from 7 percent of wages and salaries to 9 percent effective October 1986. This change is estimated to increase receipts by $0.9 billion in 1987, and $1.2 billion in 1988 and 1989.

14. *Increase in the District of Columbia (D.C.) employer contribution to civil service retirement (CSR).*—The D.C. Government cur-

rently contributes 7 percent of wages and salaries to CSR; D.C. Government employees contribute an additional 7 percent. The cost of civil service retirement exceeds the combined contribution of the D.C. Government and its employees. Beginning in 1987, the Administration proposes to increase the D.C. Government employer contribution as necessary to cover the full cost of the program, when combined with the higher employee contributions and benefit reductions being proposed.

15. *Petroleum overcharge restitution funds.*—The receipts estimates reflect revenues from the resolution of cases involving petroleum pricing and allocation violations under the Emergency Petroleum Allocation Act of 1973, in instances where the overcharged customers cannot be identified and repaid. The Administration intends to propose legislation to provide guidance to the courts where appropriate in other cases, which is estimated to result in additional receipts of $1.0 billion in 1987.

16. *Nuclear Regulatory Commission (NRC) user fees.*—The Administration is proposing that the NRC impose a fee of $500-per-million watts of rated thermal capacity on all operating nuclear power plants, in partial recovery of NRC costs for regulating nuclear power plants. It is estimated that this fee will increase receipts $0.2 billion annually, beginning in 1987.

Chart 16.—TAX EXPENDITURES: PRESENT LAW

[Dollars in billions]*

	Fiscal year—	
	1986	1987
Commerce and housing	$193.3	$209.2
Income security	80.7	89.2
General purpose fiscal assistance	41.4	46.3
Health	31.0	34.7
Education, training, employment, and social services	32.7	36.4
Social Security and Medicare	18.6	19.3
Energy	5.2	4.6
International affairs	3.1	3.3
Natural resources and environment	5.0	5.6
Other tax expenditures	11.0	12.2
Total	$424.5	$460.6

*Numbers may not add up to indicated totals due to rounding.

Chart 16

Tax Expenditures: Present Law

The concept of tax expenditures was developed in order to compare the Federal Government's outlays to the budgetary impact of various deductions, deferrals, and credits in the tax structure. It was intended that, with this information, consideration of the budget might involve examination of both direct and tax expenditures as alternate means of providing incentives.

The Budget Act defines a tax expenditure as the revenue loss arising from special exemptions, exclusions, or deductions from gross income, a special credit, a preferential rate of tax, or a deferral of tax. In general, the concept is intended to identify provisions in the tax law which either encourage certain behavior or compensate for specific hardship. The term encompasses tax provisions of limited applicability which are exceptions to provisions of more general applicability considered necessary to make the tax system function.

This definition of "tax expenditure" is imprecise. The imprecision in definition, as well as a possible implication that the Government has a preeminent right to all income, has resulted in substantial controversy. Because of the difficulty of achieving precision, the staff approach has been to include all items listed as tax expenditures by the Administration. A listing of a provision as a "tax expenditure" here is not intended to imply approval or disapproval, or judgment about the effectiveness, of any provision. A listing simply reflects present law and, by implication, present public policy.

The chart presents a summary of tax expenditures by budget functional category and estimates of their revenue effects. The table containing the estimates presented by the Administration as a special analysis in the 1987 budget is reproduced as appendix C of this document.

If the various tax expenditures figures in the two columns were added they would total $424.5 billion in fiscal year 1986 and $460.6 billion in fiscal year 1987. However, simple addition of the separate items, even in functional categories, may not accurately reflect revenue loss. The revenue estimates are made with the assumption that only one item was repealed. If two or more changes were made at the same time, there could be interaction effects. For example, an affected taxpayer could be forced into a higher tax bracket than if only one change were made. Thus, the combined revenue impact would be different from the sum of the separate revenue estimates. Furthermore, some taxpayers have the choice of using other expenditures if they want to reduce their tax liability. Other taxpayers would be required to pay higher taxes, absent existence of a tax expenditure provision. These possibilities are not reflected by a simple totaling of separate items.

CHART 17.—DEBT LIMIT

[Dollars in billions]

Current debt limit	$2,078.7
Reagan Administration estimate of debt subject to limit September 30, 1986	2,108.5
Plus:	
Federal funds deficit for fiscal year 1987	$218.5
Off-Budget agency spending financed by Treasury	0.3
Other financing	*−9.9
Equals:	
Debt subject to limit, September 30, 1987	2,317.4

* Net change from offsetting changes in financing other than borrowing against shifts in investment by Federal funds and off-budget entities.

Chart 17

Debt Limit

Under existing law, the debt limit is $2,078.7 billion. In 1983, Congress eliminated the distinction between the temporary and permanent debt ceilings, so that there is now just one ceiling without a fixed expiration date. The Reagan Administration estimates that legislation will be needed to change the limit on the public debt before September 30, 1986.

For fiscal year 1987, the Reagan Administration assumes that the debt subject to limit would reach $2,317.4 billion on September 30, 1987. Underlying those assumptions are the targets established by legislation enacted in 1985 to reduce the Federal deficit. The economic assumptions set forth in the fiscal year 1987 budget also determine the estimates of the debt subject to limit.

The fiscal year 1987 needs as estimated by the Administration include issuance of debt by the Federal Financing Bank under the debt limit on behalf of various agency program and several agencies whose activities are not included in the budget totals. In general, trust fund surpluses are invested in Government securities and therefore do not serve to reduce the debt subject to limit even though they do reduce the unified budget deficit.

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APPENDIX A

Committee on Finance 1985 Report to the Budget Committee With Respect to Fiscal Year 1986

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United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510

March 5, 1985

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
Washington, D.C. 20510

Dear Mr. Chairman:

This letter responds to your letter of February 22, 1985, and transmits the view of a majority of the members of the Committee on Finance on how much deficit reduction can be achieved in fiscal years 1986, 1987 and 1988 in programs within the Committee's jurisdiction. As you indicated in your letter, this communication replaces the "views and estimates" report normally required under section 301(c) of the Congressional Budget Act.

For fiscal years 1986, 1987 and 1988, according to spending cuts recommended by the Office of Management and Budget (OMB) and the Budget Committee, the Finance Committee would need to achieve savings amounting to $63.3 billion (based on estimates made by OMB). As you requested, we have had the savings of those spending cuts reestimated by the Congressional Budget Office (CBO). According to CBO and the Budget Committee as of February 28, 1985, those same spending cuts would achieve savings of about $51.2 billion.

The Finance Committee will meet its responsibility for achieving $51.2 billion in spending cuts over the three fiscal years in question IF ALL OTHER MAJOR COMMITTEES CAN MEET THE SPENDING CUTS TOTALS REQUIRED OF THEM.

To the extent that CBO changes its baseline projections or its estimates of savings for any programs within the Finance Committee's jurisdiction and to the extent the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment should be made in our spending reductions goal.

The Finance Committee has not agreed to any specific list of spending cuts and reserves the right to achieve a reduction in spending for programs within its jurisdiction in such amounts and in any manner it determines is necessary and appropriate.

We hope that this information is helpful to the Budget Committee in its deliberations on the first concurrent resolution on the budget for fiscal year 1986. The Finance Committee staff is available to answer any questions you may have.

Sincerely,

Bob

BOB PACKWOOD

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APPENDIX B

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974, as Amended

(Including Amendments Made by the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings; P.L. 99–177)

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DEFINITIONS

Sec. 3. (a) In General.—For purposes of this Act—

(1) The terms "budget outlays" and "outlays" mean, with respect to any fiscal year, expenditures and net lending of funds under budget authority during such year.

(2) The term "budget authority" means authority provided by law to enter into obligations which will result in immediate or future outlays involving Government funds or to collect offsetting receipts,[1] except that such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or Government.

(3) The term "tax expenditures" means those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability; and the term "tax expenditures budget" means an enumeration of such tax expenditures.

(4) The term "concurrent resolution on the budget" means—

(A) a concurrent resolution setting forth the congressional budget for the United States Government for a fiscal year as provided in section 301; and

(B) any other concurrent resolution revising the congressional budget for the United States Government for a fiscal year as described in section 304.

(5) The term "appropriation Act" means an Act referred to in section 105 of title 1, United States Code.

(6) The term "deficit" means, with respect to any fiscal year, the amount by which total budget outlays for such fiscal year exceed total revenues for such fiscal year. In calculating the deficit for purposes of comparison with the maximum deficit amount under the Balanced Budget and Emergency Deficit Control Act of 1985 and in calculating the excess deficit for purposes of sections 251 and 252 of such Act (notwithstanding section 710(a) of the Social Security Act), for any fiscal year, the receipts of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund for such fiscal year and the taxes payable under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954 during such fiscal year shall be included in total revenues for such fiscal year, and the disbursements of each such Trust Fund for such fiscal year shall be included in total budget outlays for such fiscal year. Notwithstanding any other provision of law except to the extent provided by section 710(a) of the Social Security Act, the receipts, revenues, disbursements,

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[1] The language "or to collect offsetting receipts" becomes effective on April 15, 1986.

budget authority, and outlays of each off-budget Federal entity for a fiscal year shall be included in total budget authority, total budget outlays, and total revenues and the amounts of budget authority and outlays set forth for each major functional category, for such fiscal year. Amounts paid by the Federal Financing Bank for the purchase of loans made or guaranteed by a department, agency, or instrumentality of the Government of the United States shall be treated as outlays of such department, agency, or instrumentality.[2]

[Section 3(7) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(A).]

(7) The term "maximum deficit amount" means—

(A) with respect to the fiscal year beginning October 1, 1985, $171,900,000,000;

(B) with respect to the fiscal year beginning October 1, 1986, $144,000,000,000;

(C) with respect to the fiscal year beginning October 1, 1987, $108,000,000,000;

(D) with respect to the fiscal year beginning October 1, 1988, $72,000,000,000;

(E) with respect to the fiscal year beginning October 1, 1989, $36,000,000,000; and

(F) with respect to the fiscal year beginning October 1, 1990, zero.

(8) The term "off-budget Federal entity" means any entity (other than a privately owned Government-sponsored entity)—

(A) which is established by Federal law, and

(B) the receipts and disbursements of which are required by law to be excluded from the totals of—

(*i*) the budget of the United States Government submitted by the President pursuant to section 1105 of title 31, United States Code, or

(*ii*) the budget adopted by the Congress pursuant to title III of this Act.

(9) The term "entitlement authority" means spending authority described by section 401(c)(2)(C).

(10) The term "credit authority" means authority to incur direct loan obligations or to incur primary loan guarantee commitments.

TITLE III—CONGRESSIONAL BUDGET PROCESS

TIMETABLE

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
First Monday after January 3	President submits his budget.
February 15	Congressional Budget Office submits report to Budget Committees.
February 25	Committees submit views and estimates to Budget Committee.

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[2] The second sentence of section 3(6) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(A).

On or before:	Action to be completed:
April 1	Senate Budget Committee reports concurrent resolution on the budget.
April 15	Congress completes action on concurrent resolution on the budget.
May 15	Annual appropriation bills may be considered in the House.
June 10	House Appropriations Committee reports last annual appropriation bill.
June 15	Congress completes action on reconciliation legislation.
June 30	House completes action on annual appropriation bills.
October 1	Fiscal year begins.

ANNUAL ADOPTION OF CONCURRENT RESOLUTION ON THE BUDGET

Sec. 301. (a) Content of Concurrent Resolution on the Budget.—On or before April 15 of each year, the Congress shall complete action on a concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth appropriate levels for the fiscal year beginning on October 1 of such year, and planning levels for each of the two ensuing fiscal years, for the following—

(1) totals of new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments;

(2) total Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(3) the surplus or deficit in the budget;

(4) new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments for each major functional category, based on allocations of the total levels set forth pursuant to paragraph (1); and

(5) the public debt.[1]

(b) Additional Matters in Concurrent Resolution.—The concurrent resolution on the budget may—

(1) set forth, if required by subsection (f), the calendar year in which, in the opinion of the Congress, the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 should be achieved;

(2) include reconciliation directives described in section 310;

(3) require a procedure under which all or certain bills or resolutions providing new budget authority or new entitlement authority for such fiscal year shall not be enrolled until the Congress has completed action on any reconciliation bill or reconciliation resolution or both required by such concurrent resolution to be reported in accordance with section 310(b); and

(4) set forth such other matters, and require such other procedures, relating to the budget, as may be appropriate to carry out the purposes of this Act.

(c) Consideration of Procedures or Matters Which Have the Effect of Changing Any Rule of the House of Representa-

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[1] See Rule XLIX of the Rules of the House of Representatives as it pertains to the statutory limit on the public debt in the House of Representatives, p. 49.

TIVES.—If the Committee on the Budget of the House of Representatives reports any concurrent resolution on the budget which includes any procedure or matter which has the effect of changing any rule of the House of Representatives, such concurrent resolution shall then be referred to the Committee on Rules with instructions to report it within five calendar days (not counting any day on which the House is not in session). The Committee on Rules shall have jurisdiction to report any concurrent resolution referred to it under this paragraph with an amendment or amendments changing or striking out any such procedure or matter.

(d) Views and Estimates of Other Committees.—On or before February 25 of each year, each committee of the House of Representatives having legislative jurisdiction shall submit to the Committee on the Budget of the House and each committee of the Senate having legislative jurisdiction shall submit to the Committee on the Budget of the Senate its views and estimates (as determined by the committee making such submission) with respect to all matters set forth in subsections (a) and (b) which relate to matters within the jurisdiction or functions of such committee. The Joint Economic Committee shall submit to the Committees on the Budget of both Houses its recommendations as to the fiscal policy appropriate to the goals of the Employment Act of 1946. Any other committee of the House of Representatives or the Senate may submit to the Committee on the Budget of its House, and any joint committee of the Congress may submit to the Committees on the Budget of both Houses, its views and estimates with respect to all matters set forth in subsections (a) and (b) which relate to matters within its jurisdiction or functions.

(e) Hearings and Report.—In developing the concurrent resolution on the budget referred to in subsection (a) for each fiscal year, the Committee on the Budget of each House shall hold hearings and shall receive testimony from Members of Congress and such appropriate representatives of Federal departments and agencies, the general public, and national organizations as the committee deems desirable. Each of the recommendations as to short-term and medium-term goals set forth in the report submitted by the members of the Joint Economic Committee under subsection (d) may be considered by the Committee on the Budget of each House as part of its consideration of such concurrent resolution, and its report may reflect its views thereon, including its views on how the estimates of revenues and levels of budget authority and outlays set forth in such concurrent resolution are designed to achieve any goals it is recommending. The report accompanying such concurrent resolution shall include, but not be limited to—

(1) a comparison of revenues estimated by the committee with those estimates in the budget submitted by the President;

(2) a comparison of the appropriate levels of total budget outlays and total new budget authority, total direct loan obligations, total primary loan guarantee commitments, as set forth in such concurrent resolution, with those estimated or requested in the budget submitted by the President;

(3) with respect to each major functional category, an estimate of budget outlays and an appropriate level of new budget authority for all proposed programs and for all existing pro-

grams (including renewals thereof) with the estimate and level for existing programs being divided between permanent authority and funds provided in appropriation Acts, and with each such division being subdivided between controllable amounts and all other amounts;

(4) an allocation of the level of Federal revenues recommended in the concurrent resolution among the major sources of such revenues;

(5) the economic assumptions and objectives which underlie each of the matters set forth in such concurrent resolution and any alternative economic assumptions and objectives which the committee considered;

(6) projections (not limited to the following), for the period of five fiscal years beginning with such fiscal year, of the estimated levels of total budget outlays and total new budget authority, the estimated revenues to be received, and the estimated surplus or deficit, if any, for each fiscal year in such period, and the estimated levels of tax expenditures (the tax expenditures budget) by major functional categories;

(7) a statement of any significant changes in the proposed levels of Federal assistance to State and local governments;

(8) information, data, and comparisions indicating the manner in which, and the basis on which, the committee determined each of the matters set forth in the concurrent resolution; and

(9)—allocations described in section 302(a).

(f) ACHIEVEMENT OF GOALS FOR REDUCING UNEMPLOYMENT.—

(1) If, pursuant to section 4(c) of the Employment Act of 1946, the President recommends in the Economic Report that the goals for reducing unemployment set forth in section 4(b) of such Act be achieved in a year after the close of the five-year period prescribed by such subsection, the concurrent resolution on the budget for the fiscal year beginning after the date on which such Economic Report is received by the Congress may set forth the year in which, in the opinion of the Congress, such goals can be achieved.

(2) After the Congress has expressed its opinion pursuant to paragraph (1) as to the year in which the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 can be achieved, if, pursuant to section 4(e) of such Act, the President recommends in the Economic Report that such goals be achieved in a year which is different from the year in which the Congress has expressed its opinion that such goals should be achieved, either in its action pursuant to paragraph (1) or in its most recent action pursuant to this paragraph, the concurrent resolution on the budget for the fiscal year beginning after the date on which such Economic Report is received by the Congress may set forth the year in which, in the opinion of the Congress, such goals can be achieved.

(3) It shall be in order to amend the provision of such resolution setting forth such year only if the amendment thereto also proposes to alter the estimates, amounts, and levels (as described in subsection (a)) set forth in such resolution in germane fashion in order to be consistent with the economic goals

(as described in sections 3(a)(2) and 4(b) of the Employment Act of 1946) which such amendment proposes can be achieved by the year specified in such amendment.

(g) COMMON ECONOMIC ASSUMPTIONS.—The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall set forth the common economic assumptions upon which such joint statement and conference report are based, or upon which any amendment contained in the joint explanatory statement to be proposed by the conferees in the case of technical disagreement is based.

(h) BUDGET COMMITTEES CONSULTATION WITH COMMITTEES.—The Committee on the Budget of the House of Representatives shall consult with the committees of its House having legislative jurisdiction during the preparation, consideration, and enforcement of the concurrent resolution on the budget with respect to all matters which relate to the jurisdiction of functions of such committees.

[Section 301(i) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(B).]

(i) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.—

(1)(A) Except as provided in paragraph (2), it shall not be in order in either the House of Representatives or the Senate to consider any concurrent resolution on the budget for a fiscal year under this section, or to consider any amendment to such a concurrent resolution, or to consider a conference report on such a concurrent resolution, if the level of total budget outlays for such fiscal year that is set forth in such concurrent resolution or conference report exceeds the recommended level of Federal revenues set forth for that year by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7), or if the adoption of such amendment would result in a level of total budget outlays for that fiscal year which exceeds the recommended level of Federal revenues for that fiscal year, by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7).

(B) In the House of Representatives the point of order established under subparagraph (A) with respect to the consideration of a conference report or with respect to the consideration of a motion to concur, with or without an amendment or amendments, in a Senate amendment, the stage of disagreement having been reached, may be waived only by a vote of three-fifths of the Members present and voting, a quorum being present.

(2) Paragraph (1) of this subsection shall not apply if a declaration of war by the Congress is in effect.

COMMITTEE ALLOCATIONS

[Section 302(c), (f), and (g) become effective on April 15, 1986; P.L. 99-177, section 275(a)(2)(A).]

SEC. 302. (a) ALLOCATION OF TOTALS.—

(1) For the House of Representatives, the joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation,

based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority, total entitlement authority, and total credit authority among each committee of the House of Representatives which has jurisdiction over laws, bills and resolutions providing such new budget authority, such entitlement authority, or such credit authority. The allocation shall, for each committee, divide new budget authority entitlement authority, and credit authority between amounts provided or required by law on the date of such conference report (mandatory or uncontrollable amounts), and amounts not so provided or required (discretionary or controllable amounts), and shall make the same division for estimated outlays that would result from such new budget authority.

(2) For the Senate, the joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority and new credit authority among each committee of the House of Representatives and the Senate which has jurisdiction over bills and resolutions providing such new budget authority.

(b) REPORTS BY COMMITTEES.—As soon as practicable after a concurrent resolution on the budget is agreed to—

(1) the Committee on Appropriations of each House shall, after consulting with the Committee on Appropriations of the other House, (A) subdivide among its subcommittees the allocation of budget outlays, new budget authority, and new credit authority allocated to it in the joint explanatory statement accompanying the conference report on such concurrent resolution, and (B) further subdivide the amount with respect to each such subcommittee between controllable amounts and all other amounts; and

(2) every other committee of the House and Senate to which an allocation was made in such joint explanatory statement shall, after consulting with the committee or committees of the other House to which all or part of its allocation was made, (A) subdivide such allocation among its subcommittees or among programs over which it has jurisdiction, and (B) further subdivide the amount with respect to each subcommittee or program between controllable amounts and all other amounts.

Each such committee shall promptly report to its House the subdivisions made by it pursuant to this subsection.

(c) POINT OF ORDER.—It shall not be in order in the House of Representatives or the Senate to consider any bill or resolution, or amendment thereto, providing—

(1) new budget authority for a fiscal year;

(2) new spending authority as described in section 401(c)(2) for a fiscal year; or

(3) new credit authority for a fiscal year;

within the jurisdiction of any committee which has received an appropriate allocation of such authority pursuant to subsection (a) for such fiscal year, unless and until such committee makes the allocation or subdivisions required by subsection (b), in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(d) Subsequent Concurrent Resolutions.—In the case of a concurrent resolution on the budget referred to in section 304, the allocations under subsection (a) and the subdivisions under subsection (b) shall be required only to the extent necessary to take into account revisions made in the most recently agreed to concurrent resolution on the budget.

(e) Alteration of Allocations.—At any time after a committee reports the allocations required to be made under subsection (b), such committee may report to its House an alteration of such allocations. Any alteration of such allocations must be consistent with any actions already taken by its House on legislation within the committee's jurisdiction.

(f) Legislation Subject to Point of Order.—

(1) In the house of representatives.—After the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in the House of Representatives to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, new entitlement authority effective during such fiscal year, or new credit authority for such fiscal year, or any conference report on any such bill or resolution, if—

(A) the enactment of such bill or resolution as reported;

(B) the adoption and enactment of such amendment; or

(C) the enactment of such bill or resolution in the form recommended in such conference report,

would cause the appropriate allocation made pursuant to subsection (b) for such fiscal year of new discretionary budget authority, new entitlement authority, or new credit authority to be exceeded.

(2) In the senate.—At any time after the Congress has completed action on the concurrent resolution on the budget required to be reported under section 301(a) for a fiscal year, it shall not be in order in the Senate to consider any bill or resolution (including a conference report thereon), or any amendment to a bill or resolution, that provides for budget outlays or new budget authority in excess of the appropriate allocation of such outlays or authority reported under subsection (b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(g) Determinations by Budget Committees.—For purposes of this section, the levels of new budget authority, spending authority as described in section 401(c)(2), outlays and new credit authority for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the State, as the case may be.

CONCURRENT RESOLUTION ON THE BUDGET MUST BE ADOPTED BEFORE LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, NEW CREDIT AUTHORITY, OR CHANGES IN REVENUES OR THE PUBLIC DEBT LIMIT IS CONSIDERED

SEC. 303. (a) IN GENERAL.—It shall not be in order in either the House of Represenatives or the Senate to consider any bill or resolution (or amendment thereto) as reported to the House or Senate which provide—

(1) new budget authority for a fiscal year;

(2) an increase or decrease in revenues to become effective during a fiscal year;

(3) an increase or decrease in the public debt limit to become effective during a fiscal year;

(4) new entitlement authority to become effective during a fiscal year; or

(5) new credit authority for a fiscal year,

until the concurrent resolution on the budget for such fiscal year has been agreed to pursuant to section 301.

(b) EXCEPTIONS.—Subsection (a) does not apply to any bill or resolution—

(1) providing new budget authority which first becomes available in a fiscal year following the fiscal year to which the concurrent resolution applies; or

(2) increasing or decreasing revenues which first become effective in a fiscal year following the fiscal year to which the concurrent resolution applies.

After May 15 of any calendar year, subsection (a) does not apply in the House of Representatives to any general appropriation bill, or amendment thereto, which provides new budget authority for the fiscal year beginning in such calendar year.

(c) WAIVER IN THE SENATE.—

(1) The committee of the Senate which reports any bill or resolution (or amendment thereto) to which subsection (a) applies may at or after the time it reports such bill or resolution (or amendment), report a resolution to the Senate (A) providing for the waiver of subsection (a) with respect to such bill or resolution (or amendment), and (B) stating the reasons why the waiver is necessary. The resolution shall then be referred to the Committee on the Budget of the Senate. That committee shall report the resolution to the Senate within 10 days after the resolution is referred to it (not counting any day on which the Senate is not in session) beginning with the day following the day on which it is so referred, accompanied by that committee's recommendations and reasons for such recommendations with respect to the resolution. If the committee does not report the resolution within such 10-day period, it shall automatically be discharged from further consideration of the resolution and the resolution shall be placed on the calendar.

(2) During the consideration of any such resolution, debate shall be limited to one hour, to be equally divided between, and controlled by, the majority leader and minority leader or their designees, and the time on any debatable motion or appeal shall be limited to twenty minutes, to be equally divided be-

tween, and controlled by, the mover and the manager of the resolution. In the event the manager of the resolution is in favor of any such motion or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. Such leaders, or either of them, may, from the time under their control on the passage of such resolution, allot additional time to any Senator during the consideration of any debatable motion or appeal. No amendment to the resolution is in order.

(3) If, after the Committee on the Budget has reported (or been discharged from further consideration of) the resolution, the Senate agrees to the resolution, then subsection (a) shall not apply with respect to the bill or resolution (or amendment thereto) to which the resolution so agreed to applies.

PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS ON THE BUDGET

Sec. 304. (a) In General.—At any time after the concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301, and before the end of such fiscal year, the two Houses may adopt a concurrent resolution on the budget which revises or reaffirms the concurrent resolution on the budget for such fiscal year most recently agreed to.

[Section 304(b) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(B).]

(b) Maximum Deficit Amount May Not Be Exceeded.—The provisions of section 301(i) shall apply with respect to concurrent resolutions on the budget under this section (and amendments thereto and conference reports thereon) in the same way they apply to concurrent resolutions on the budget under such section 301(i) (and amendments thereto and conference reports thereon).

PROVISIONS RELATING TO THE CONSIDERATION OF CONCURRENT RESOLUTIONS ON THE BUDGET

Sec. 305. (a) Procedure in House of Representatives After Report of Committee Debate.—

(1) When the Committee on the Budget of the House of Representatives has reported any concurrent resolution on the budget, it is in order at any time after the fifth day (excluding Saturdays, Sundays, and legal holidays) following the day on which the report upon such resolution by the Committee on the Budget has been available to Members of the House and, if applicable, after the first day (excluding Saturdays, Sundays, and legal holidays) following the day on which a report upon such resolution by the Committee on Rules pursuant to section 301(c) has been available to Members of the House (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of the concurrent resolution. The motion is highly privileged and is not debatable. An amendment to the motion is not in order, and it is not in order to move to reconsider the vote by which the motion is agreed to or disagreed to.

(2) General debate on any concurrent resolution on the budget in the House of Representatives shall be limited to not more than 10 hours, which shall be divided equally between

majority and minority parties, plus such additional hours of debate as are consumed pursuant to paragraph (3). A motion further to limit debate is not debatable. A motion to recommit the concurrent resolution is not in order, and it is not in order to move to reconsider the vote by which the concurrent resolution is agreed to or disagreed to.

(3) Following the presentation of opening statements on the concurrent resolution on the budget for a fiscal year by the chairman and ranking minority member of the Committee on the Budget of the House, there shall be a period of up to four hours for debate on economic goals and policies.

(4) Only if a concurrent resolution on the budget reported by the Committee on the Budget of the House sets forth the economic goals (as described in sections 3(a)(2) and 4(b) of the Full Employment Act of 1946) which the estimates, amounts, and levels (as described in section 301(a)) set forth in such resolution are designed to achieve, shall it be in order to offer to such resolution an amendment relating to such goals, and such amendment shall be in order only if it also proposes to alter such estimates, amounts, and levels in germane fashion in order to be consistent with the goals proposed in such amendment.

(5) Consideration of any concurrent resolution on the budget by the House of Representatives shall be in the Committee of the Whole, and the resolution shall be considered for amendment under the five-minute rule in accordance with the applicable provisions of rule XXIII of the rules of the House of Representatives. After the Committee rises and reports the resolution back to the House, the previous question shall be considered as ordered on the resolution and any amendments thereto to final passage without intervening motion; except that it shall be in order at any time prior to final passage (notwithstanding any other rule or provision of law) to adopt an amendment (or a series of amendments) changing any figure or figures in the resolution as so reported to the extent necessary to achieve mathematical consistency.

(6) Debate in the House of Representatives on the conference report on any concurrent resolution on the budget shall be limited to not more than 5 hours, which shall be divided equally between the majority and minority parties. A motion further to limit debate is not debatable. A motion to recommit the conference report is not in order, and it is not in order to move to reconsider the vote by which the conference report is agreed to or disagreed to.

(7) Appeals from decisions of the Chair relating to the application of the Rules of the House of Representatives to the procedure relating to any concurrent resolution on the budget shall be decided without debate.

(b) PROCEDURE IN SENATE AFTER REPORT OF COMMITTEE; DEBATE; AMENDMENTS.—

(1) Debate in the Senate on any concurrent resolution on the budget, and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 50 hours, except that with respect to any concur-

rent resolution referred to in section 304(a) all such debate shall be limited to not more than 15 hours. The time shall be equally divided between, and controlled by, the majority leader and the minority leader or their designees.

(2) Debate in the Senate on any amendment to a concurrent resolution on the budget shall be limited to 2 hours, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution, and debate on any amendment to an amendment, debatable motion, or appeal shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution, except that in the event the manager of the concurrent resolution is in favor of any such amendment, motion, or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. No amendment that is not germane to the provisions of such concurrent resolution shall be received. Such leaders, or either of them, may, from the time under their control on the passage of the concurrent resolution, allot additional time to any Senator during the consideration of any amendment, debatable motion, or appeal.

(3) Following the presentation of opening statements on the concurrent resolution on the budget for a fiscal year by the chairman and ranking minority member of the Committee on the Budget of the Senate, there shall be a period of up to four hours for debate on economic goals and policies.

(4) Subject to the other limitations of this Act, only if a concurrent resolution on the budget reported by the Committee on the Budget of the Senate sets forth the economic goals (as described in sections 3(a)(2) and 4(b) of the Employment Act of 1946) which the estimates, amounts, and levels (as described in section 301(a)) set forth in such resolution are designed to achieve, shall it be in order to offer to such resolution an amendment relating to such goals, and such amendment shall be in order only if it also proposes to alter such estimates, amounts, and levels in germane fashion in order to be consistent with the goals proposed in such amendment.

(5) A motion to further limit debate is not debatable. A motion to recommit (except a motion to recommit with instructions to report back within a specified number of days, not to exceed 3, not counting any day on which the Senate is not in session) is not in order. Debate on any such motion to recommit shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution.

(6) Notwithstanding any other rule, an amendment or series of amendments to a concurrent resolution on the budget proposed in the Senate shall always be in order if such amendment or series of amendments proposes to change any figure or figures then contained in such concurrent resolution so as to make such concurrent resolution mathematically consistent or so as to maintain such consistency.

(c) ACTION ON CONFERENCE REPORTS IN THE SENATE—

(1) The conference report on any concurrent resolution on the budget shall be in order in the Senate at any time after

the third day (excluding Saturdays, Sundays, and legal holidays) following the day on which such conference report is reported and is available to Members of the Senate. A motion to proceed to the consideration of the conference report may be made even though a previous motion to the same effect has been disagreed to.

(2) During the consideration in the Senate of the conference report on any concurrent resolution on the budget, debate shall be limited to 10 hours, to be equally divided between, and controlled by, the majority leader and minority leader or their designees. Debate on any debatable motion or appeal related to the conference report shall be limited to 1 hour, to be equally divided between and controlled by, the mover and the manager of the conference report.

(3) Should the conference report be defeated, debate on any request for a new conference and the appointment of conferees shall be limited to 1 hour, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designeee, and should any motion be made to instruct the conferees before the conferees are named, debate on such motion shall be limited to one-half hour, to be equally divided between, and controlled by, the mover and the manager of the conference report. Debate on any amendment to any such instructions shall be limited to 20 minutes, to be equally divided between and controlled by the mover and the manager of the conference report. In all cases when the manager of the conference report is in favor of any motion, appeal, or amendment, the time in opposition shall be under the control of the minority leader or his designee.

(4) In any case in which there are amendments in disagreement time on each amendment shall be limited to 30 minutes, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee. No amendment that is not germane to the provisions of such amendments shall be received.

(d) REQUIRED ACTION BY CONFERENCE COMMITTEE.—If at the end of 7 days (excluding Saturdays, Sundays, and legal holidays) after the conferees of both Houses have been appointed to a committee of conference on a concurrent resolution on the budget, the conferees are unable to reach agreement with respect to all matters in disagreement between the two Houses, then the conferees shall submit to their respective Houses, on the first day thereafter on which their House is in session—

(1) a conference report recommending those matters on which they have agreed and reporting in disagreement those matters on which they have not agreed; or

(2) a conference report in disagreement, if the matter in disagreement is an amendment which strikes out the entire text of the concurrent resolution and inserts a substitute text.

(e) CONCURRENT RESOLUTION MUST BE CONSISTENT IN THE SENATE.—It shall not be in order in the Senate to vote on the question of agreeing to—

(1) a concurrent resolution on the budget unless the figures then contained in such resolution are mathematically consistent; or

(2) a conference report on a concurrent resolution on the budget unless the figures contained in such resolution, as recommended in such conference report, are mathematically consistent.

LEGISLATION DEALING WITH CONGRESSIONAL BUDGET MUST BE HANDLED BY BUDGET COMMITTEES

SEC. 306. No bill or resolution, and no amendment to any bill or resolution, dealing with any matter which is within the jurisdiction of the Committee on the Budget of either House shall be considered in that House unless it is a bill or resolution which has been reported by the Committee on the Budget of that House (or from the consideration of which such committee has been discharged) or unless it is an amendment to such a bill or resolution.

HOUSE COMMITTEE ACTION ON ALL APPROPRIATION BILLS TO BE COMPLETED BY JUNE 10

SEC. 307. On or before June 10 of each year, the Committee on Appropriations of the House of Representatives shall report annual appropriation bills providing new budget authority under the jurisdiction of all of its subcommittees for the fiscal year which begins on October 1 of that year.

REPORTS, SUMMARIES, AND PROJECTIONS OF CONGRESSIONAL BUDGET ACTIONS

SEC. 308. (a) REPORTS ON LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, OR NEW CREDIT AUTHORITY, OR PROVIDING AN INCREASE OR DECREASE IN REVENUES OR TAX EXPENDITURES.—

(1) Whenever a committee of either House reports to its House a bill or resolution, or committee amendment thereto, providing new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or providing an increase or decrease in revenues or tax expenditures for a fiscal year, the report accompanying that bill or resolution shall contain a statement, or the committee shall make available such a statement in the case of an approved committee amendment which is not reported to its House, prepared after consultation with the Director of the Congressional Budget Office—

(A) comparing the levels in such measure to the appropriate allocations in the reports submitted under section 302(b) for the most recently agreed to concurrent resolution on the budget for such fiscal year;

(B) including an identification of any new spending authority described in section 401(c)(2) which is contained in such measure and a justification for the use of such financing method instead of annual appropriations;

(C) containing a projection by the Congressional Budget Office of how such measure will affect the levels of such budget authority, budget outlays, spending authority, revenues, tax expenditures, direct loan obligations, or primary loan guarantee commitments under existing law for such fiscal year and each of the four ensuing fiscal years, if timely submitted before such report is filed; and

(D) containing an estimate by the Congressional Budget Office of the level of new budget authority for assistance to State and local governments provided by such measure, if timely submitted before such report is filed.

(2) Whenever a conference report is filed in either House and such conference report or any amendment reported in disagreement or any amendment contained in the joint statement of managers to be proposed by the conferees in the case of technical disagreement on such bill or resolution provides new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or provides an increase or decrease in revenues for a fiscal year, the statement of managers accompanying such conference report shall contain the information described in paragraph (1), if available on a timely basis. If such information is not available when the conference report is filed, the committee shall make such information available to Members as soon as practicable prior to the consideration of such conference report.

(b) Up-To-Date Tabulations of Congressional Budget Action.—

(1) The Director of the Congressional Budget Office shall issue to the committees of the House of Representatives and the Senate reports on at least a monthly basis detailing and tabulating the progress of congressional action on bills and resolutions providing new budget authority, new spending authority described in section 410(c)(2), or new credit authority, or providing an increase or decrease in revenues or tax expenditures for a fiscal year. Such reports shall include but are not limited to an up-to-date tabulation comparing the appropriate aggregate and functional levels (including outlays) included in the most recently adopted concurrent resolution on the budget with the levels provided in bills and resolutions reported by committees or adopted by either House or by the Congress, and with the levels provided by law for the fiscal year preceding such fiscal year.

(2) The Committee on the Budget of each House shall make available to Members of its House summary budget scorekeeping reports. Such reports—

(A) shall be made available on at least a monthly basis, but in any case frequently enough to provide Members of each House an accurate representation of the current status of congressional consideration of the budget;

(B) shall include, but are not limited to, summaries of tabulations provided under subsection (b)(1); and

(C) shall be based on information provided under subsection (b)(1) without substantive revision.

The chairman of the Committee on the Budget of the House of Representatives shall submit such reports to the Speaker.

(c) Five-Year Projection of Congressional Budget Action.—As soon as practicable after the beginning of each fiscal year, the Director of the Congressional Budget Office shall issue a report projecting for the period of 5 fiscal years beginning with such fiscal year—

(1) total new budget authority and total budget outlays for each fiscal year in such period;

(2) revenues to be received and the major sources thereof, and the surplus or deficit, if any, for each fiscal year in such period;

(3) tax expenditures for each fiscal year in such period;

(4) entitlement authority for each fiscal year in such period; and

(5) credit authority for each fiscal year in such period.

HOUSE APPROVAL OF REGULAR APPROPRIATION BILLS

Sec. 309. It shall not be in order in the House of Representatives to consider any resolution providing for an adjournment period of more than three calendar days during the month of July until the House of Representatives has approved annual appropriation bills providing new budget authority under the jurisdiction of all the subcommittees of the Committee on Appropriations for the fiscal year beginning on October 1 of such year. For purposes of this section, the chairman of the Committee on Appropriations of the House of Representatives shall periodically advise the Speaker as to changes in jurisdiction among its various subcommittees.

RECONCILIATION

[Section 310 (c), (d), and (g) become effective on April 15, 1986; P.L. 99-177, section 275(a)(2)(A).]

Sec. 310. (a) Inclusion of Reconciliation Directive in Concurrent Resolutions on the Budget.—A concurrent resolution on the budget for any fiscal year, to the extent necessary to effectuate the provisions and requirements of such resolution, shall—

(1) specify that total amount by which—

(A) new budget authority for such fiscal year;

(B) budget authority initially provided for prior fiscal years;

(C) new entitlement authority which is to become effective during such fiscal year; and

(D) credit authority for such fiscal year, contained in laws, bills, and resolutions within the jurisdiction of a committee, is to be changed and direct that committee to determine and recommend changes to accomplish a change of such total amount;

(2) specify the total amount by which revenues are to be changed and direct that the committees having jurisdiction to determine and recommend changes in the revenue laws, bill, and resolutions to accomplish a change of such total amount;

(3) specify the amounts by which the statutory limit on the public debt is to be changed and direct the committee having jurisdication to recommend such changes; or

(4) specify and direct any combination of the matters described in paragraphs (1), (2), and (3),

(b) LEGISLATIVE PROCEDURE.—If a concurrent resolution containing directives to one or more committees to determine and recommend changes in laws, bills, or resolutions is agreed to in accordance with subsection (a), and—

(1) only one committee of the House or the Senate is directed to determine and recommend changes, the committee shall promptly make such determination and recommendations and report to its House reconciliation legislation containing such recommendations; or

(2) more than one committee of the House or the Senate is directed to determine and recommend changes, each such committee so directed shall promptly make such detemination and recommendations and submit such recommendations to the Committee on the Budget of its House, which, upon receiveing all such recommendations, shall report to its House reconcilation legislation carrying out all such recommendations without any substantive revision.

For purposes of this subsection, a reconciliation resolution is a concurrent resolution directing the Clerk of the House of Representatives or the Secretary of the Senate, as the case may be, to make specified changes in bills and resolution which have not been enrolled.

(c) COMPLIANCE WITH RECONCILIATION DIRECTIONS.—Any committee of the House of Representatives or the Senate that is directed, pursuant to a concurrent resolution on the budget, to determine and recommend changes of the type described in paragraphs (1) and (2) of subsection (a) with respect to laws within its jurisdiction, shall be deemed to have compiled with such directions—

(1) if—

(A) the amount of the changes of the types described in paragraph (1) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under such paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection, and

(B) the amount of the changes of the type described in paragraph (2) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under that paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection; and

(2) if the total amount of the changes recommended by such committee is not less than the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection.

(d) LIMITATION ON AMENDMENTS TO RECONCILIATION BILLS AND RESOLUTIONS.—

(1) It shall not be in order in the House of Representatives to consider any amendment to a reconciliation bill or reconciliation resolution if such amenedment would have the effect of increasing any specific budget outlays above the level of such outlays provided in the bill or resolution (for the fiscal years covered by the reconciliation instructions set forth in the most recently agreed to concurrent resolution on the budget), or would have the effect of reducing any specific Federal revenues below the level of such revenues provided in the bill or resolution (for such fiscal years), unless such amendment makes at least an equivalent reduction in other specific budget outlays, an equivalent increase in other specific Federal revenues, or an equivalent combination thereof (for such fiscal years), except that a motion to strike a provision providing new budget authority or new entitlement authority may be in order.

(2) It shall not be in order in the Senate to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of decreasing any specific budget outlay reductions below the level of such outlay reductions provided (for the fiscal years covered) in the reconciliation instructions which relate to such bill or resolution set forth in a resolution providing for reconciliation, or would have the effect of reducing Federal revenue increases below the level of such revenue increases provided (for such fiscal years) in such instructions relating to such bill or resolution, unless such amendment makes a reduction in other specific budget outlays, an increase in other specific Federal revenues, or a combination thereof (for such fiscal years) at least equivalent to any increase in outlays or decrease in revenues provided by such amendment, except that a motion to strike a provision shall always be in order.

(3) Paragraphs (1) and (2) shall not apply if a declaration of war by the Congress is in effect.

(4) For purposes of this section, the levels of budget outlays and Federal revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

(5) The Committee on Rules of the House of Representatives may make in order amendments to achieve changes specified by reconciliation directives contained in a concurrent resolution on the budget if a committee or committees of the House fail to submit recommended changes to its Committee on the Budget pursuant to its instruction.

(e) PROCEDURE IN THE SENATE.—

(1) Except as provided in paragraph (2), the provisions of section 305 for the consideration in the Senate of concurrent resolutions on the budget and conference reports thereon shall also apply to the consideration in the Senate of reconciliation bills reported under subsection (b) and conference reports thereon.

(2) Debate in the Senate on any reconciliation bill reported under subsection (b), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 20 hours.

(f) COMPLETION OF RECONCILIATION PROCESS.—

(1) IN GENERAL.—Congress shall complete action on any reconciliation bill or reconciliation resolution reported under subsection (b) not later than June 15 of each year.

(2) POINT OF ORDER IN THE HOUSE OF REPRESENTATIVES.—It shall not be in order in the House of Representatives to consider any resolution providing for an adjournment period of more than three calendar days during the month of July until the House of Representatives has completed action on the reconciliation legislation for the fiscal year beginning on October 1 of the calendar year to which the adjournment resolution pertains, if reconciliation legislation is required to be reported by the concurrent resolution on the budget for such fiscal year.

(g) LIMITATION ON CHANGES TO THE SOCIAL SECURITY ACT.—Notwithstanding any other provision of law, it shall not be in order in the Senate or the House of Representatives to consider any reconciliation bill or reconciliation resolution reported pursuant to a concurrent resolution on the budget agreed to under section 301 or 304, or a resolution pursuant to section 254(b) of the Balanced Budget and Emergency Deficit Control Act of 1985, or any amendment thereto or conference report thereon, that contains recommendations with respect to the old-age, survivors, and disability insurance program established under title II of the Social Security Act.

NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

SEC. 311. (a) LEGISLATION SUBJECT TO POINT OF ORDER.—Except as provided by subsection (b), after the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, providing new entitlement authority effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report,

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of total revenues set forth in such concurrent resolution or, in the Senate, would otherwise result in a deficit for such fiscal year that exceeds the maximum deficit amount specified for such fiscal year in section 3(7) (except to the extent that paragraph (1) of section

301(i) or section 304(b), as the case may be, does not apply by reason of paragraph (2) of such subsection).[1]

(b) Exception in the House of Representatives.—Subsection (a) shall not apply in the House of Representatives to any bill, resolution, or amendment which provides new budget authority or new entitlement authority effective during such fiscal year, or to any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report,

would not cause the appropriate allocation of new discretionary budget authority or new entitlement authority made pursuant to section 302(a) for such fiscal year, for the committee within whose jurisdiction such bill, resolution, or amendment falls, to be exceeded.

(c) Determination of Budget Levels.—For purposes of this section, the levels of new budget authority, budget outlays, new entitlement authority, and revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

BILLS PROVIDING NEW SPENDING AUTHORITY

Sec. 401. (a) Controls on Legislation Providing Spending Authority.—It shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or conference report, as reported to its House which provides new spending authority described in subsection (c)(2) (A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, conference report, or amendment also provides that such new spending authority as described in subsection (c)(2) (A) or (B) is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) Legislation Providing Entitlement Authority.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be required for such fiscal year if

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[1] The portion of section 311(a) which begins with "or, in the Senate" and ends with "paragraph (2) of such subsection)" expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(B).

such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day in which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

(c) DEFINITIONS.—

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this Act, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under chapter 31 of title 31 of the United States Code) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts;

(C) to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law;

(D) to forego the collection by the United States for proprietary offsetting receipts, the budget authority for which is not provided in advance by appropriation Acts to offset such foregone receipts; and

(E) to make payments by the United States (including loans, grants, and payments from revolving funds) other than those covered by subparagraph (A), (B), (C), or (D), the budget authority for which is not provided in advance by appropriation Acts.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act); or

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Fiscal Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act, as of the date of enactment of the Balanced Budget and Emergency Deficit Control Act of 1985; or

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

LEGISLATION PROVIDING NEW CREDIT AUTHORITY

[Section 402, as set forth herein, becomes effective on February 1, 1986; P.L. 99-177, section 275(a)(2)(B).]

SEC. 402. (a) CONTROLS ON LEGISLATION PROVIDING NEW CREDIT AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or conference report, as reported to its House, or any amendment which provides new credit authority described in subsection (b)(1), unless that bill, resolution, conference report, or amendment also provides that such new credit authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) DEFINITION.—for purposes of this Act, the term "new credit authority" means credit authority (as defined in section 3(10) of this Act) not provided by law or the effective date of this section, including any increase in or addition to credit authority provided by law on such date.

APPENDIX C

Budget Act Points of Order in the Senate

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BUDGET ACT POINTS OF ORDER IN THE SENATE

Section	Description	Waiver requirement	Application	Effective date	Expiration date
301(i)	Prohibits consideration of budget resolution, amendment thereto, or conference report thereon, which contains deficit in excess of maximum deficit amount. (Also applies to revised budget resolutions via sec. 304(b)).	Three-fifths	Budget resolution Amendments Conference report	12-12-85	9-30-91
302(c)	Prohibits consideration of a committee's legislation until that committee has filed its sec. 302(b) report.	Majority	Bill Resolution Amendment	4-15-86	
302(f)	Prohibits consideration of legislation providing budget authority or outlays in excess of committee's sec. 302(b) report.	Three-fifths	Bill Resolution Amendment Conference report	4-15-86	9-30-91 (Three-fifths expires)
303(a)	Prohibits legislation providing new budget authority, change in revenues, change in public debt, new entitlement authority, or new credit authority for a fiscal year until the budget resolution for that year has been agreed to.	Majority	Bill Resolution Amendment	12-12-85	
304(b)	See section 301(i)	Three-fifths	Revised Budget Resolution	12-12-85	9-30-91
305(b)(2)	Prohibits non-germane amendments to budget resolution (and, by reference, reconciliation bills).	Three-fifths	Amendment	12-12-85	

Section	Description	Waiver requirement	Application	Effective date	Expiration date
306	Prohibits consideration of legislation within Budget Committee's jurisdiction, unless the Budget Committee reported it.	Three-fifths	Bill Resolution Amendment	12-12-85	
310(d)(2)	Prohibits amendments to reconciliation bills which are not deficit neutral.	Three-fifths	Amendment	4-15-86	9-30-91 (Three-fifths expires)
310(g)	Prohibits consideration of reconciliation legislation which recommends changes in social security.	Three-fifths	Bill Resolution Amendment Conference report	4-15-86	9-30-91 (Three-fifths expires)
311(a)	Prohibits consideration of legislation which would exceed outlay ceiling or revenue floor, or would cause deficit to exceed maximum deficit amount.	Three-fifths	Bill Resolution Amendment Conference report	12-12-85	9-30-91 (MDA expires) (Three-fifths expires)
401(a)	Prohibits consideration of legislation providing new contract authority or new borrowing authority which is not limited to appropriations.	Majority	Bill Resolution Amendment Conference report	12-12-85	
401(b)(1)	Prohibits consideration of legislation providing new entitlement authority which becomes effective during the fiscal year which ends in the calendar year in which the bill is reported.	Majority	Bill Resolution Amendment	12-12-85	
402	Prohibits consideration of legislation providing new credit authority which is not limited to appropriations.	Majority	Bill Resolution Amendment Conference report	2-1-86	

APPENDIX D

Tax Expenditures by Function (Excerpt From Special Analysis of the Budget of the United States Government—FY 1987, pages G–37—G–41)

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Table G–1. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1985	1986	1987	1985	1986	1987
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	2,375	2,535	2,675
International affairs:						
Exclusion of income earned abroad by United States citizens	....	....	....	2,265	2,405	2,550
Deferral of income of domestic international sales corporations (DISC)	765	....	....	....	....	....
Exclusion of income of foreign sales corporations (FSC)	750	1,550	1,765	....	....	....
Deferral of income from controlled foreign corporations:						
Pre-1983 budget method	625	650	715	....	....	....
Post-1982 budget method	....	....	....	....	....	....
Total (after interactions)[1]	2,140	2,200	2,480	2,265	2,405	2,550
General science, space, and technology:						
Expensing of research and development expenditures:						
Pre-1983 budget method	3,570	2,795	2,735	160	130	125
Post-1982 budget method	....	....	....	....	....	....
Credit for increasing research activities	2,390	1,225	515	40	20	10
Suspension of the allocation of research and experimentation expenditures	210	110	....	....	....	....
Total (after interactions)	6,765	4,530	3,575	220	165	150
Energy:						
Expensing of exploration and development costs:						
Oil and gas	–300	–190	45	790	810	880
Other fuels	60	65	70	....	....	....
Excess of percentage over cost depletion:						
Oil and gas	415	390	385	1,590	1,490	1,465
Other fuels	430	460	490	30	30	35
Capital gains treatment of royalties on coal	15	15	15	115	120	125
Exclusion of interest on State and local industrial development bonds for certain energy facilities	130	140	155	....	....	....
Residential energy credits:						
Supply incentives	....	....	....	450	175	20
Conservation incentives	....	....	....	295	70	....
Alternative, conservation and new technology credits:						
Supply incentives	215	120	70	170	70	10
Conservation incentives	*	*	*	*	*	*
Alternative fuel production credit	15	15	15	....	....	....
Alcohol fuel credit[2]	*	*	*	....	....	....
Energy credit for intercity buses	15	5	*	*	*	*
Special rules for minning reclamation reserves	35	50	65	5	5	5
Total (after interactions)	730	760	930	2,445	1,965	1,805
Natural resources and environment:						
Expensing of exploration and development costs, nonfuel minerals	70	75	80	10	10	10
Excess of percentage over cost depletion, nonfuel minerals	440	460	485	25	25	30
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	1,185	1,405	1,640	....	....	....

Table G-1. **OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1985	1986	1987	1985	1986	1987
Tax incentives for preservation of historic structures	140	180	235	290	370	480
Capital gains treatment of iron ore	*	*	*	30	30	30
Capital gains treatment of certain timber income	460	550	705	115	120	125
Investment credit and seven-year amortization for reforestation expenditures	40	45	50	10	10	15
Total (after interactions)	1,565	1,820	2,140	470	555	675
Agriculture:						
Expensing of certain capital outlays	70	75	80	400	425	455
Capital gains treatment of certain income	55	65	75	720	755	795
Total (after interactions)	115	130	145	1,040	1,095	1,165
Commerce and housing credit:						
Dividend exclusion	....	....	....	660	685	720
Exclusion of interest on small issue industrial development bonds	1,880	2,155	2,295	....	....	....
Exemption of credit union income	345	375	405	....	....	....
Excess bad debt reserves of financial institutions	−180	60	535	....	....	....
Exclusion of interest on life insurance savings	....	....	....	5,020	5,370	5,720
Deductibility of interest on consumer credit	....	....	....	15,845	17,775	18,835
Deductibility of mortgage interest on owner-occupied homes	....	....	....	24,975	27,180	29,870
Deductibility of property tax on owner-occupied homes	....	....	....	9,395	10,145	10,955
Exclusion of interest on State and local housing bonds for owner-occupied housing	....	....	....	1,610	1,985	2,405
Exclusion of interest on State and local debt for rental housing	....	....	....	760	945	1,075
Capital gains (other than agriculture, timber, iron ore and coal)	1,560	1,695	2,030	40,675	42,715	44,850
Deferral of capital gains on home sales	....	....	....	2,535	2,570	2,965
Exclusion of capital gains on home sales for persons age 55 and over	....	....	....	1,150	1,275	1,400
Carryover basis of capital gains at death	....	....	....	6,850	7,690	8,535
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	28,310	30,520	33,935	4,530	4,580	4,495
Accelerated depreciation on rental housing:						
Pre-1983 budget method	165	185	200	630	690	750
Post-1982 budget method	....	....	....	....	....	....
Accelerated depreciation of buildings other than rental housing:						
Pre-1983 budget method	5,625	6,460	7,025	2,930	3,260	3,500
Post-1982 budget method	....	....	....	....	....	....
Accelerated depreciation of machinery and equipment:						
Pre-1983 budget method	19,035	20,345	21,485	2,425	2,595	2,730
Post-1982 budget method	....	....	....	....	....	....
Safe harbor leasing rules	2,640	2,245	1,850	....	....	....
Amortization of start-up costs	40	35	35	310	295	270
Reinvestment of dividends in public utility stock	....	....	....	685	170	....
Reduced rates on the first $100,000 of corporate income:						
Pre-1983 budget method	9,245	9,805	11,115	....	....	....
Post-1982 budget method	....	....	....	....	....	....

Table G-1. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1985	1986	1987	1985	1986	1987
Deductions for special percentage of taxable income for life insurance companies	1,335	1,425	1,515	...	...	* ...
Total (after interactions) [1]	70,565	75,915	83,105	117,420	128,715	137,685
Transportation:						
Deferral of tax on shipping companies	130	125	115	...	...	...
Exclusion of interest on State and local government bonds for mass commuting vehicles	20	20	20	...	...	...
Deduction for motor carrier operating rights	70	15	...	*	*	...
Total (after interactions)	220	160	135	*	*	...
Community and regional development:						
Five-year amortization for housing rehabilitation	30	30	30	40	45	50
Investment credit for rehabilitation of structures (other than historic)	185	195	220	160	170	190
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	480	585	695	...	...	...
Total (after interactions)	730	850	990	210	225	250
Education, training, employment, and social services:						
Exclusion of scholarship and fellowship income:						
Pre-1983 budget method	...	...	...	885	990	1,000
Post-1982 budget method	...	...	...	...	...	...
Exclusion of interest on State and local student loan bonds	...	...	...	220	245	255
Exclusion of interest on State and local debt for private nonprofit educational facilities	145	175	215	...	...	...
Parental personal exemption for students age 19 or over	...	...	...	1,120	1,230	1,360
Deductibility of charitable contributions (education)	410	445	495	955	1,155	1,100
Employer educational assistance	...	...	...	95	25	...
Total education (after interactions) [1]	555	620	710	3,320	3,695	3,765
Exclusion of employer provided child care	...	...	...	20	25	40
Exclusion of employee meals and lodging (other than military)	...	...	...	885	975	1,075
Exclusion of contributions to prepaid legal services plans	...	...	...	60	15	...
Investment credit for ESOPs	3,035	3,660	4,025	...	...	...
Credit for child and dependent care expenses	...	...	...	3,700	4,020	4,325
Targeted jobs credit	360	350	45	125	70	20
Deduction for two earner married couples	...	...	...	6,795	7,420	8,255
Total training and employment (after interactions)	3,395	4,010	4,070	9,950	11,145	13,855
Deductibility of charitable contributions, other than education and health	510	555	620	9,870	11,965	11,380
Deduction for certain adoption expenses	...	...	...	*	*	*
Exclusion of parsonage allowances	...	...	...	170	175	185
Total social services, (after interactions)	510	555	620	10,040	12,140	11,565
Grand total (after interactions) [1]	4,460	5,185	5,400	23,310	26,980	29,185
Health:						
Exclusion of employer contributions for medical insurance premiums and medical care	...	...	...	28,025	31,285	35,050
Deductibility of medical expenses	...	...	...	3,640	3,825	3,965
Exclusion of interest on State and local debt for private nonprofit health facilities	1,280	1,595	1,945	...	...	...

Table G–1. **OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued**

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1985	1986	1987	1985	1986	1987
Deductibility of charitable contributions (health)	250	275	305	1,390	1,690	1,605
Tax credit for orphan drug research	*	*	*			
Total (after interactions)	1,530	1,870	2,250	33,055	36,800	40,620
Income security:						
Exclusion of railroad retirement system benefits				445	455	460
Exclusion of workmen's compensation benefits				2,325	2,500	2,685
Exclusion of public assistance benefits:						
Pre-1983 budget method				545	580	605
Post-1982 budget method						
Exclusion of special benefits for disabled coal miners				150	145	145
Exclusion of untaxed unemployment insurance benefits				1,115	995	940
Exclusion of military disability pensions				120	125	125
Net exclusion of pension contributions and earnings:						
Employer plans				71,065	78,190	86,755
Individual Retirement Accounts				18,685	21,090	22,925
Keogh plans				3,385	3,730	4,140
Exclusion of other employee benefits:						
Premiums on group term life insurance				2,765	2,990	3,225
Premiums on accident and disability insurance				175	170	175
Income of trusts to finance supplementary unemployment benefits				20	30	30
Additional exemption for the blind				35	40	40
Additional exemption for elderly				3,040	3,340	3,675
Tax credit for the elderly and disabled				110	110	115
Deductibility of casualty losses				295	335	375
Earned income credit [a]				345	330	300
Total (after interactions) [1]				102,780	113,135	124,465
Social Security:						
Exclusion of social security benefits:						
Disability insurance benefits				1,170	1,200	1,220
OASI benefits for retired workers				12,895	13,440	14,070
Benefits for dependents and survivors				3,765	3,960	4,180
Total (after interactions)				17,830	18,600	19,470
Veterans benefits and services:						
Exclusion of veterans disability compensation				1,700	1,735	1,775
Exclusion of veterans pensions				190	190	190
Exclusion of GI bill benefits				105	85	80
Exclusing of interest on state and local debt for veterans housing				255	275	295
Total (after interactions)				2,250	2,285	2,340
General government:						
Credits and deductions for political contributions				270	290	310
General purpose fiscal assistance:						
Exclusion of interest on public purpose State and local debt	1,500	1,660	1,835	5,980	6,635	7,325
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes				21,635	23,365	25,225
Tax credit for corporations receiving income from doing business in United States possessions	2,765	3,040	3,345			
Total (after interactions)	4,265	4,700	5,180	27,615	30,000	32,550

Table G–1. OUTLAY EQUIVALENT ESTIMATES FOR TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

Description	Fiscal years					
	Corporations			Individuals		
	1985	1986	1987	1985	1986	1987
Interest:						
Deferral of interest on savings bonds	....	....	....	700	720	735

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* $2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] Totals include only pre-1983 budget method.

[2] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $375 million in 1985, $455 million in 1986, and $530 million in 1987.

[3] The figures in the table indicate the tax subsidies provided by the earned income tax credit. The effect on outlays is: 1985, $1,100 million; 1986, $1,2[illegible]3 million; 1987, $1,228 million.